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Politics this week

Oct 4th 2001
From The Economist print edition

War on terror

AP

President George Bush said that America was in **"hot pursuit"** of those responsible for the terrorist attacks on America. Officials revealed that special forces from Britain and the United States were already operating on the ground in Afghanistan. America presented its NATO partners with what George Robertson, the organisation's secretary-general, called "conclusive evidence" that Osama bin Laden and his al-Qaeda group were behind the terrorist attacks of September 11th.

See article: What the investigators have found

Donald Rumsfeld, America's defence secretary, travelled to the Middle East to fortify the resolve of Saudi Arabia and other Muslim countries for any action against terrorist bases. **Tony Blair**, Britain's prime minister and Mr Bush's staunchest ally, made a speech warning the Taliban that they must "surrender the terrorists or surrender power."

See article: The propaganda war

Afghanistan's ruling Taliban persisted with their refusal to hand over Mr bin Laden and readied the country for attack. Refugees continued to leave Afghanistan's cities, and many hundreds of thousands gathered near the border with Pakistan. Aid agencies began preparing for a mass exodus and started to take food from Pakistan into the country.

See article: The next Afghanistan

The frail **Israeli-Palestinian ceasefire** was in tatters after a week of fighting and killing, concluding with a Hamas attack on a Gaza settlement and Israel's harsh response. Mr Bush, anxious to draw Arab public opinion into his anti-terror coalition, spoke in favour of an eventual Palestinian state, and called for "meaningful" negotiation to follow an end to violence.

See article: Smashing the ceasefire

Congress reached agreement on Mr Bush's **anti-terrorism bill** after the administration removed proposals that had worried civil libertarians, notably one that would have allowed investigators to hold foreign terrorist suspects indefinitely.

Trouble in Africa

In an interim ruling that reversed an earlier decision, **Zimbabwe's** expanded Supreme Court told the government that it could continue seizing white-owned farms and redistributing the land. It said that it would issue a main ruling later on whether the policy complied with the law.

South Africa's ruling party suffered a blow as Tony Yengeni, chief whip of the African National Congress, was arrested, charged with corruption and perjury, and lost his job. He had been investigated over a $6 billion arms deal, and is accused of lying over his acceptance of a luxury car from a European arms maker. An arrest warrant was also issued for Michael Woerfel, a suspended managing director of European Aeronautic Defence Systems. Some 30 South Africans allegedly accepted cars at discounted prices.

To calm the discontent of Algeria's **Berber** minority, President Abdelaziz Bouteflika agreed that Tamazight, the Berber language, should be one of Algeria's official tongues.

Clinton disbarred

America's Supreme Court suspended **Bill Clinton** “from the practice of law before the high court”, an entitlement given to him in 1977 when he was Arkansas's attorney-general. Mr Clinton will be disbarred within 40 days unless he appeals, which he is likely to do.

Strom Thurmond, America's longest serving senator, was rushed to hospital after collapsing on the Senate floor. The 98-year-old Republican recovered quickly.

Macedonia on the edge

Macedonia's interior minister said police would move into formerly rebel-controlled areas. Wait, said NATO. There'll be bloodshed if they arrive, said a rebel commander. The EU's Javier Solana and Chris Patten went to Skopje to urge the government to give real effect to the fragile peace accord reached in August.

Corsica's main nationalist party said that an autonomy deal struck a year ago by France's prime minister, Lionel Jospin, had come undone.

Tony Blair gave his Labour Party's annual conference a strong hint that he would call a referendum on **British membership of the euro** within the life of the present parliament.

Reuters

See article: Tony Blair's big speech

A **Russian plane** carrying 76 people from Tel Aviv to Novosibirsk crashed into the Black Sea. A witness talked of an explosion, suggesting a possible terrorist attack. All flights from Tel Aviv were suspended.

Leaders of **Poland's** ex-communist Democratic Left Alliance, which last month won a general election, said it was close to an agreement with the Peasants' Party to form a coalition government.

Italy's prime minister, **Silvio Berlusconi**, having earlier accused critics of taking his remarks on Islam out of context, stirred up the row: he had never made them at all, he told ambassadors from Muslim countries. Left-wingers in the media had invented them to blacken him, he told an Arabic newspaper.

See article: Bad luck and clumsy driving

Guerrilla warfare

More problems for President Andres Pastrana's peace effort in **Colombia**. The FARC guerrillas kidnapped and then murdered his former culture minister. They separately turned back a march led by the presidential candidate of the opposition Liberals to a “demilitarised” zone granted to them by Mr Pastrana. These events prompted calls for the president to cancel his plans to renew the life of this zone.

See article: Enemies of the state, without and within

In a setback for **Quebec separatism**, the province's governing Parti Québécois lost by-elections in two previously safe seats, and faced a recount in a third. The result made it unlikely that Bernard Landry, the province's premier, will proceed with plans to call an early election followed by a new referendum on secession.

See article: Quebec thinks continentally

Trinidad and Tobago faced political uncertainty after the prime minister, Basdeo Panday, sacked his attorney-general, prompting two other ministers to resign.

See article: Gas and graft

Out go the League

The Awami League, the party of **Bangladesh's** prime minister, Sheikh Hasina, was beaten by Khaleda Zia's Bangladesh Nationalist Party in the country's general election. Rising crime and violence contributed to the defeat.

See article: Ruling party defeated in Bangladesh

Some 38 people were killed in bomb and grenade attacks on the state-assembly building in Srinagar, in Indian-administered **Kashmir**. India blamed the attack on Islamic militants supported by Pakistan.

EPA

Indonesia's Supreme Court overturned the conviction for corruption of Hutomo “Tommy” Mandala Putra, son of Suharto, a former president. Police have been searching for him for over a year.

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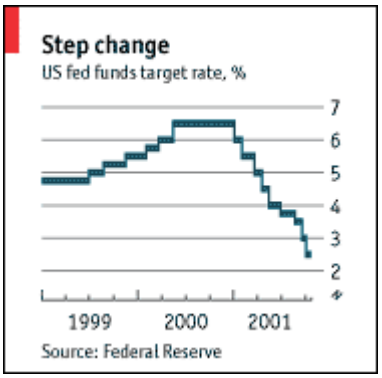
Business this week

Oct 4th 2001
From The Economist print edition

Business

America's Federal Reserve made another attempt to kick-start the economy, thought by many to be in recession already. It cut interest rates for the ninth time this year; the half-point drop takes rates to 2.5%, the lowest since 1962. President Bush promised another stimulus package, suggesting new spending and tax cuts worth as much as $75 billion.

See article: How low can they go?



Grounded

Swissair, in trouble even before September 11th, filed for bankruptcy and a moratorium on debts of SFr17 billion ($10.6 billion). Switzerland's biggest banks, UBS and Credit Suisse, planned to subsume Swissair's airline services into Crossair, a regional carrier, after paying SFr260m for its 70% stake in Crossair. Swissair's aircraft were temporarily grounded until the government offered an emergency loan to get them flying again.

See article: Black days

Sabena, Belgium's flag carrier, in which Swissair owns a 49.5% stake, also filed for bankruptcy protection. A promised payment of *euro*130m ($120m), part of a cash injection by Swissair, evaporated along with the airline. Belgium's government pledged cash to keep Sabena in business for one more month.

GE's aircraft-engine division is to shed 4,000 employees, about 13% of its workforce; the outlook for engine sales looks bleak while the world airline business is fighting for its life.

The European Court of Human Rights added to the troubles for airlines by ruling that noisy late-night flights at Heathrow airport **violate the human rights** of nearby residents. Services may have to be stopped or made quieter. Other European airports may have to take similar action.

See article: Grounding night flights

Network effect

Nortel Networks gave warning of third-quarter losses of $3.6 billion and said it would lay off 10,000 employees, around 18% of the workforce. The Canadian telecoms-equipment maker had recorded losses of more than $19 billion in the second quarter, after exceptional charges.

Marconi suffered further ignominy as its shares fell to a 30-year low after plunging by 29% in one day. The drop was prompted by a filing in America concerning its ability to match its first-half forecast, although the telecoms company denied that this constituted a profit warning. Dresdner Kleinwort Wasserstein, an investment bank, had already precipitated another tumble by issuing a report suggesting that Marconi's shares could be worthless.

Polaroid is teetering on the brink of Chapter 11 bankruptcy. The American photographic company's poor finances worsened considerably after the terrorist attack on America. Conditions for asset sales to reduce debts of $950m have deteriorated fast; banks and bondholders are waiting nervously.

It was reported that two mobile-phone giants, **Motorola** and **Siemens**, are discussing a joint venture for their infrastructure or handset businesses (or both). Mobile companies have proved keen to cut costs as the mobile boom dies down.

SFR, a mobile-phone group that belongs to Vivendi Universal, backed away from a threat to withhold *euro*619m ($570m) as part-payment for a French 3G mobile-phone licence. SFR wants to renegotiate the fee with France's government because the business now looks less profitable. Orange, the holder of France's only other 3G licence, is unsurprisingly supportive.

Bayer confirmed that it would buy **CropScience**, from **Aventis**, a Franco-German rival, for *euro*7.3 billion ($6.7 billion) to make it the world's second-largest agrochemical concern. Aventis wants to concentrate on drug making. Bayer intends to eschew specialisation and stick by its ailing drug business, but is seeking a partner in Europe.

Tchibo, a German coffee company, is considering a flotation of some 25% of Reemtsma, the world's fourth-largest cigarette maker, for about *euro*7 billion ($6.4 billion). Tchibo, which owns 75% of the firm, is said to be discussing its sale to Japan Tobacco, the world's third-biggest cigarette maker.

UFJ Holdings, Japan's fourth-largest bank, warned of losses for the first half of ¥65 billion ($540m). Japan's other big banks are expected to announce similarly poor results. New rules making them mark their shareholdings to market prices at September 30th, when the market was low, are further eroding banks' capital.

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Fighting terrorism

The propaganda war

Oct 4th 2001
From The Economist print edition

It is needed to sustain the immediate battle, but also to win the peace

Reuters

EVERY day during the build-up of American forces around Afghanistan, it has seemed that the first military action against the al-Qaeda terrorist bosses and their hosts, the country's Taliban regime, must be just “a few days away”. So numerous have been the journalists clustered in and around the expected frontline and so scarce has been the news that some have even reported upon what they say have been the first skirmishes, though more in the hope of accidentally being right than because of any actual information. Frustrated, some of the journalists have even begun to return home.

The first attacks may indeed be just “a few days away”. But another sort of war is already under way, one in which journalists are already playing an important role as a conduit or filter, though not just the scribblers and broadcasters from the West. It is the propaganda war. That word has come to have a derogatory meaning, of the dissemination of untruths. In this case, America's task is (in truth) to disseminate truths, about its motives, about its intentions, about its current and past actions in Israel and Iraq, about its views of Islam. For all that, however, this part of the war promises to be no easier to win than the many other elements of the effort.

Questions of evidence

Success in the propaganda war is a vital preparation for military action; it will be vital if the coalition of allies is to be maintained during that action and amid the inevitable setbacks; and it will be most vital of all if defeats of these particular terrorists are to be followed up, as they should be, by a wider effort to make the ensuing peace more secure, within Central Asia and the Middle East as well as at home.

In this war, the United States has so far been quite successful. The appalling scale and nature of the attacks on New York and Washington, DC, on September 11th were enough to bring most of the coalition of supporters together, putting aside some of their old differences and resentments. The truth of the World Trade Centre was self-evident. The resolute but mostly well-measured response by President George Bush and his cabinet, combined with some nimble diplomacy, then made that coalition larger than could have been predicted on September 10th, especially among the countries surrounding Afghanistan.

The task now, though, is to keep that coalition together. This is tricky, as there are pressures in several directions (see article). Public opinion in Western Europe and the United States does not seem to be impatient for military action, but as time goes on and the television cameramen search for useful ways to spend their time, so more and more images will appear of starving Afghan refugees, of innocents displaced or innocents liable to be caught in the crossfire. That argues for speed. Afghanistan's neighbours and countries in the Arab world, however, are nervous about hasty action. Governments there are concerned about their own publics' opinions, and the views of powerful factions within their countries. This argues for caution, and for careful preparation. Most of all, though, it argues for the release of some of the evidence for the guilt of Osama bin Laden and his al-Qaeda network.

This is a practical rather than a moral matter. The United States needs to retain the support of Pakistan, Uzbekistan, Saudi Arabia, Egypt and others. To be able to fend off their own critics and enemies, those

countries' governments need to be able to show that they are assisting in a just cause, rather than merely doing the American hegemon's bidding. It has been useful that some of the evidence has been shown privately to governments, both in Europe and on the frontline. But, it would be best if some evidence were to be put into the public domain, probably just at the moment when military action begins. The tour of the main Arab and Muslim allies by Donald Rumsfeld, Mr Bush's defence secretary, which began on October 3rd, offers a good opportunity if it is to coincide with military strikes. The evidence does not have to amount to a full case for the prosecution of the sort that might convince a jury: that would be impractical and would risk giving away too many secrets. Yet it needs to be enough to help the frontline governments to keep their critics at bay.

In the past, they have not been good at that. Some, indeed, especially in the Arab world, have collaborated in disseminating a view of America and its foreign policy that has been hostile to a fault. Iran is the most aggressive in this regard, and its conservative clerics resumed their noisy criticism of America last week. But it is not alone. One cause célèbre in Arab minds is, naturally, Israel (see article). One of America's most immediate worries is whether violence between Israelis and Palestinians could lead to desertions from the coalition—and what to do about it. That is why President Bush slipped a mention of support for an eventual Palestinian state into public comments this week. He and his officials will now need to do more, not only to persuade Israel to moderate its army's actions (see next leader) but also to persuade Arab governments to tell their people that that is what it is doing.

The shadow of Saddam

Armed even with the truth, America is not going to be able to win round the hearts and minds of Muslims, especially Arabs, within a matter of weeks or even months. But it can hope to gain their acquiescence, through the information disseminated by their governments. It also has a longer-term task, however: that of garnering support for whatever new regime or structure it wishes to encourage in Afghanistan, to succeed the Taliban. For that task, it needs to think back to the Gulf war.

Iraq poses both an immediate propaganda challenge and a lesson about what not to do when you have won a war. The immediate challenge is that, both within the Muslim world and in the West, it is widely believed that American-led sanctions and the no-fly zones enforced by American and British fighters have led directly to the deaths of hundreds of thousands of Iraqi children. America, it is said, has a double standard: it supports Israel in responding to murders of Israeli citizens but cares little when Arab children die.

The true cause of those deaths is Saddam. Although sanctions contribute to his country's impoverishment, it is he who has chosen to restrict the distribution of food and medicine that is permitted by them, and facilitated by an “oil-for-food” programme, both directly and by siphoning off some of the resources for himself. Nevertheless, the truth is that sanctions have failed, on two counts. They have failed to bring down the Iraqi dictator. And they have allowed him to win his own propaganda war, by associating America with dying children.

As the campaign proceeds against al-Qaeda and the Taliban, America will need again to take up its argument with Saddam, in order to fend off Arab criticism. Humanitarian aid to Afghan refugees, and demonstrable care about civilian casualties there, will play an important role. But also, those Iraqi children are likely to come up again. America must have its arguments ready, but also a plan to revive reforms to the sanctions (dubbed “smart” sanctions) that Russia (among others) scuppered at the United Nations in July.

The longer-term lesson, though, is even more important. In 1991, when the American-led coalition drove Iraq's tattered army out of Kuwait, it stopped short of bringing down Saddam Hussein himself. President Bush's father was nervous that Iraq might descend into chaos, or that America might be left with an enduring entanglement there, and so were his neighbouring allies. The result has been disastrous. Saddam remains in power; efforts to contain his military strength through UN inspections were only partially successful and helped to stoke Arab resentment; and sanctions have allowed him to play the victim.

With an eye on what might happen if the Taliban regime is toppled, many are saying again that it might be better not to go that far. The risk of chaos is too great. The Iraqi lesson, though, points the other way. The risk of leaving a defeated regime in place is too great: a focus for resentment, it will in time turn the propaganda war against you. If you fight a war, you have to be willing to deal with the consequences of victory.

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Israel and the Palestinians

America back in the middle

Oct 4th 2001
From The Economist print edition

Intervening in the Israeli-Palestinian conflict is crucial for anti-terrorist unity

AP

WHEN Arabs accuse the United States of being bloodstained from Israel's "crimes", they are, as we argue elsewhere, playing games with the historical truth. On the other hand, there is no arguing with the evidence, from one Arab country after another, that if America's coalition against terrorism is to include large parts of the Muslim world, the United States will have to repolish its credentials as an even-handed intermediary between Israel and the Arabs. Above all, it will have to be recognised as a restraining influence on the current Israeli government. Hence America's urgently expressed concern about the fresh surge of violence in Israel and the occupied territories, and the pressure it is exerting to rescue the all-but collapsed ceasefire.

Beyond this, the administration seems on the point of accepting that its post-Clinton policy of benevolent disengagement from the Israeli-Palestinian political dispute is no longer adequate to the situation. "We are working diligently with both sides to encourage a reduction of violence so that meaningful discussions can take place," said President George Bush on Tuesday, affirming that he backed both the idea of an eventual Palestinian state and the proposals in the Mitchell report that would pave the way for a return to peace talks. The affirmation will please the Palestinians, who argue that security talks must open the way for political ones, as much as it will displease the Israeli government, which is deeply reluctant to take up some of the suggestions made earlier this year by a group led by a former American senator, George Mitchell.

The Israeli-Palestinian situation has become threatening enough to call for active American intervention. Not long ago, it seemed possible that the year-old Palestinian uprising might be dribbling inconclusively to an end, but militants on both sides have put paid to that. On the Palestinian side, the car-bomb that exploded in West Jerusalem on October 1st, the work of Islamic Jihad, was in direct contravention of the ceasefire hurriedly declared by Yasser Arafat in the wake of the terrorist assault on America. As it happened, no one was killed by the bomb but, next day, Hamas gunmen attacked an Israeli settlement in Gaza, killing two young Israelis.

The Israeli army responded with an assault on Gaza city, and with a cabinet decision to let the army do whatever it thought necessary to defend civilians. Ariel Sharon and his ministers are under strong domestic pressure to follow the instincts of many of them and take action aimed at blasting the Palestinian leader and his regime out of the water. Most Israelis, including senior people in the government, hold Mr Arafat directly responsible for all Palestinian violence, largely because of his failure to arrest named suspects. They are eager to see the back of him, without dwelling too much on what might happen in a post-Arafat era.

Motes, beams and ceasefire violations

But militant Palestinians are not alone in holding up two fingers to the ceasefire. At American insistence, Mr Sharon agreed last week that his foreign minister, Shimon Peres, should talk to Mr Arafat about ways of saving the truce. Look at what happened in the first few days after that meeting on September 26th. Within 24 hours, Israeli tanks and bulldozers were flattening half a dozen Palestinian houses in southern Gaza, with four Palestinians killed in the fighting that followed. Over the next three or four days, another 15 Palestinians were killed, including a ten-year-old boy, and two taxi passengers who happened to be at

an army checkpoint.

Mr Peres saw his efforts disastrously undermined by the army's high-handed tactics. An Israeli newspaper then reported that the foreign minister believed certain senior generals were intent on assassinating Mr Arafat himself, and the story rippled around the world's media—though Mr Peres claims that he was misquoted. But he has not tried to disguise his exasperation at what is going on. The question is whether his anger is correctly directed at an army that is supposedly out of control, or whether it would be better directed at fellow-members of the Israeli government.

Right-wingers in Ariel Sharon's coalition have not abandoned their conviction that the American-led war on international terror provides an ideal opportunity for Israel to crack down conclusively on Palestinian terror, starting at the top with Mr Arafat, whom Mr Sharon has repeatedly labelled “our bin Laden”. The Americans, recognising that an American-Israeli anti-terrorism bond would destroy all hope of Arab, and possibly Muslim, co-operation, have been swift to throw cold water on the idea. But, faced with the threat and the reality of terrorism, many Israelis, probably including the prime minister himself, find the idea of a grand alliance with America too sweet to let go.

They are mistaken. The United States does not have to give up its friendship with Israel, but it is now clearer than ever that it is in America's interests to use that friendship to help bring an end to the long and bloody dispute with the Palestinians.

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The threat of bioterrorism

Bad chemistry

Oct 4th 2001
From The Economist print edition

Better co-ordination and stronger public-health systems are the right response

Get article background

Reuters

THE originality and audacity of the terrorist attacks on September 11th have set imaginations racing. The minds that conceived of hijacking fuel-laden aircraft and using them as flying bombs may well be capable of still darker plans. The doomsday scenarios of a chemical, biological or nuclear attack by terrorists, long so popular in books and films, suddenly seem both less fantastic and more worrying. Americans and Britons have been stocking up on gas masks and antibiotics. Serious newspapers are running survival guides in the face of biochemical Armageddon. Even such sober bodies as the World Health Organisation have issued warnings.

Fortunately, wreaking destruction on the scale of the World Trade Centre disaster using such weapons of mass destruction would not be child's play. There are enough technical obstacles to producing and deploying any of them to make the effort a long and costly enterprise that probably needs some support from a state sponsor (see article). Terrorists might, of course, acquire their biological, chemical or nuclear weapons off-the-shelf, either from sympathetic regimes or from scientific teams defecting from Russian or other state-sponsored programmes. But the complications of targeting and delivery still make other do-it-yourself methods, such as hijacking or bombing, far easier.

Yet the purpose of terrorism is to terrorise, and unconventional weapons, even in small doses, can do this extremely effectively. It needs only a small-scale chemical or biological assault to grab a city's or country's attention, as the sarin attack on the Tokyo underground in 1995 showed. The ultimate terrorist weapon is, after all, fear: panic can be as paralysing as any nerve gas and more infectious than any virus. Such “token” attacks are therefore a real threat.

Don't panic

Fighting such fears effectively will take what Graham Pearson, a biological-weapons expert at the University of Bradford, in Britain, calls a “web of reassurance”. Governments should now take measures to strengthen public confidence that their countries can cope with anything which might be thrown at them. Tougher security at potential targets, such as at nuclear power stations or hazardous-waste dumps, is one obvious step. Another is to clamp down on access to the raw materials of nuclear, biological and chemical weapons, through strict licensing of laboratories and close regulation of suppliers.

But the real key to dealing with any attack, token or otherwise, is good preparation, communication and co-ordination among those who would have to pick up the pieces. Most countries likely to be in the firing line today—chiefly America and its European allies—already have the number of policemen, firemen and other emergency workers they need to cope with the problem. But these people often lack systematic training. Doctors and nurses, for instance, can be shown how to look out for unusual symptoms, which are the first sign of a biological attack, and to report them immediately. Public-health officials can then start working on a diagnosis, while epidemiologists track down where the outbreak started.

Local governments need to dust off and improve their plans for the co-ordination of hospital services in case of an emergency, and they need to test them in drills that are as lifelike as possible. National governments can help by identifying the best civil-defence plans of their local authorities, and

encouraging their use elsewhere. In America, it would help if money to fight bioterrorism filtered down to local government, rather than being spent by committees in Washington. And all countries need to do more to strengthen their public-health systems, which have too often fallen into disrepair as resources have flowed into secondary and tertiary care.

Lastly, recent talk of grand alliances in the fight against terrorism should be expanded to advance the cause of global co-operation in controlling nuclear, chemical and biological weapons. This means stepping up pressure on countries that have yet to sign international agreements and treaties aimed at stopping the spread of biological, chemical and nuclear weapons. It also means that countries that have objections to the compliance protocol that has been proposed to the Biological Weapons Convention, notably America, need to set to work on a new plan to improve the monitoring of the existing ban at their next meeting in November.

Building an effective biological, chemical or nuclear weapon is genuine rocket science. But improving countries' preparedness for the risk that terrorists may eventually get hold of weapons of mass destruction, and use them, is not. The world already has many of the tools to reduce the threat and mitigate the impact of any such attacks; what it now needs is the wit and the will to use them properly.

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Letters

Oct 4th 2001
From The Economist print edition

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The aftermath of terror

SIR – In the chill dawn of the post-September 11th era it is, as you say, possible to identify valuable opportunities in new dialogues between old international enemies ("Closing in", September 29th). Greater international co-operation in the fight against large-scale and heinous crimes already exists in the moves to create a permanent International Criminal Court. These should now be viewed with more urgency and receive support from a previously lukewarm United States.

Yet you strike a decidedly worrying note when you refer to human rights being "shelved"; not in the old cold war way, you concede, but shelved nevertheless. Are we to take it that the mass detentions of the Chinese labour camps, the torture of the Chechen "filtration" centres or the cramming of Iranian prisons with journalists now matter a little less? What sort of "great prize" is this?

Kate Allen
Director, Amnesty International UK
London

SIR – For most of my life I have supported active involvement by America in foreign affairs. My convictions are waning. For several years, actions taken by America have only increased the anger and animosity of other countries and cultures towards it ("The roots of hatred", September 22nd). This anger is often a result of ignorance of how important domestic politics are to the formulation of America's foreign policy.

We should take a long and hard look at our involvement in security throughout Europe, Asia and the Middle East. Our presence may be encouraging regimes to engage in behaviour that would be unthinkable in our absence. It also gives despotic and dictatorial regimes (like China, Syria, Iraq, Saudi Arabia) and those with difficult domestic situations (Iran, Egypt) a convenient foil for frustrated citizens. The world does not seem to want a superpower. America should stop providing it with one.

Carl Dragseth
Austin, Texas

SIR – You fail to address the most important reason for the West's persistent problems with the Middle East and surrounding areas—a lack of true democracy in much of it. The West may be faulted for not having done enough to encourage political pluralism, even in such friendly nations as Saudi Arabia, Kuwait, Egypt and Jordan. The cold war ended with democracy emerging in the Soviet Union; so too would greater democracy in the Islamic world lead it to be more at peace with itself and the rest of the world.

Ramesh Gopalan
Fremont, California

SIR – I do not wish to dwell on whether the majority of Mexicans are justified in distrusting America ("Fair-weather friends?" September 22nd). But I am concerned that Americans do not reflect on this and other similar cases. If a relatively peaceful and moderate country like Mexico resents events that happened decades if not more than a century ago, what can America expect after invading a Muslim country, for example? America has every right to be angry and to defend itself in a way that suits it. However, Americans do not always stop to reflect how the world is going to react to some of its actions.

Fernando Sanchez
Mexico City

Eye security

SIR – Those about to invest in iris-scanning security technology will be disappointed to learn of recent developments in the treatment of glaucoma ("Watching you", September 22nd). Prostaglandin analogues are rapidly gaining popularity in the treatment of this blinding eye condition that affects 1% of the population. An innocuous side-effect of this drug is to cause a change in both iris colour (a darkening) and morphology. This change in susceptible people, usually Europeans, occurs over one to two years. Apart from rendering iris scanning potentially useless for these people, unscrupulous types without glaucoma may be tempted to use the drugs to "change" identity.

Simon Longstaff
Consultant ophthalmic surgeon
Sheffield, South Yorkshire

Poetic licence

SIR – It is understandable that Belarussians might want to take Adam Mickiewicz as a source of inspiration during their current malaise ("The nostalgic opposition", September 15th), but it is nonsense to portray him as a "poet who embodies the values of the Enlightenment." The author of the Polish national epic "Pan Tadeusz" embodies nothing if not 19th century European romanticism. To describe Mickiewicz as a proponent of "supranationality" is accurate only in the narrow sense that this Polish nationalist would indeed have favoured the restoration of a Greater Poland including the lands of the Grand Duchy of Lithuania, with which Poland had historically been unified, embracing a wide range of Balto-Slavic peoples. Perhaps this will allay your confusion as to why one of Mickiewicz's greatest works begins "Lithuania, my fatherland".

Theodore Rectenwald
Pristina, Kosovo

Basque nationalism

SIR – As a Basque nationalist and former minister in the government of the Basque region, I think you overlook some difficulties in your advocacy of self-determination and the change of the constitution which that would probably entail ("Which way ahead?", September 15th). Almost half of the region's citizens feel they are both Basque and Spanish at the same time. Since they already have the right to vote both for a Basque and a Spanish parliament (a right often exercised), they do not see a need for a further right of self-determination. Making a demand for one tends to legitimise the violence of the separatist terrorists of ETA and, if granted, would divide Basque society and make it harder for there to be a Basque nation as such. Hence, many moderate nationalists, such as myself, are against granting an additional right of self-determination.

Joseba Arregi
Bilbao

Britain to the right

SIR – Bagehot (September 15th) lamely tries to make the election of Iain Duncan Smith as leader of Britain's Conservative Party sound "not too bad". The Tories will not be able to offer a credible opposition over the next few years and will have no chance of winning the next election. Given the possibility that the Conservatives will be out of power for the next eight years at least, is it not time for someone to establish a new moderate centre-right party with appeal to more than the few thousand Conservatives who opted for Mr Duncan Smith?

Walter Davies
Hiroshima

SIR – You express surprise that Bill Cash, who you describe as a bore, has been appointed shadow attorney-general ("Lurch to the right", September 22nd). As Parliament's finest scrutineer of constitutional affairs, Mr Cash's appointment is, in fact, healthy for a legislature so long denied the time

and resources to fulfil its constitutional duty. In Mr Cash we have a man who not only reads treaties but who, unlike Kenneth Clarke, understands them as well.

John Tate
London

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Fighting terrorism

A battle on many fronts

Oct 4th 2001 | WASHINGTON, DC
From The Economist print edition

America is almost ready for military action against Osama bin Laden. An even tougher war is already under way, this one for public opinion

IN THE first days of October, America began to move beyond alliance-building towards military strikes. Officials briefed allied governments about the coming operations, and showed them—but not their publics—the evidence that Osama bin Laden, the target, was indeed responsible for the atrocities of September 11th.

The briefings had their effect. In Brussels, Lord Robertson, NATO's secretary-general, said that “the facts were clear and compelling and point conclusively” to the involvement of Mr bin Laden's al-Qaeda. He formally invoked Article 5 of the North Atlantic treaty, which holds that an attack on one NATO member is an attack on all. Vladimir Putin, Russia's president, said he had seen all the proof he needed. Pakistan's General Pervez Musharraf said the Taliban's days were numbered.

On October 2nd, Tony Blair seemed to be preparing Britain for military action against the Taliban. “The aim”, he said, “will be to eliminate their military hardware, disrupt their supplies [and] target their troops. The Taliban [must] surrender the terrorists or surrender power.” George Bush himself was less martial, but clear nonetheless: “The Taliban must turn over al-Qaeda and must destroy the terrorist camps, otherwise there will be a consequence. There are no negotiations, there's no calendar. We'll act on our time.”

The previous ten days had been spent deploying weapons, defining targets, building up the Afghan opposition and consolidating the alliance, especially among Arab states. These last two pieces have proved slow to move into place.

To strengthen the Afghan opposition, Mr Bush authorised aid to help the Northern Alliance. As the administration knows, however, any takeover of Afghanistan by the Northern Alliance, which is dominated by minority Uzbeks and Tajiks, would risk degenerating into warlordism. So the money will not go to the alliance only. Donald Rumsfeld, the defence secretary, talked of helping “tribes in the south” (that is, the majority Pushtun). And America this week shoved the alliance into a pact with Afghanistan's exiled king, Muhammad Zahir Shah, also a Pushtun (see article). The administration is creating what it hopes will be a stable alternative to the Taliban—and promising it financial backing if it

The administration knows that any takeover of Afghanistan by the Northern Alliance would risk degenerating

comes to power.

into warlordism

Equally important, America this week moved to consolidate the Arab coalition. Mr Bush said he was willing to support a Palestinian state, subject to reservations. This had been decided upon before September 11th, it was explained. Nor is it unprecedented: Bill Clinton had said the same, though Mr Bush had not. Whether the new statement will stiffen Arab support remains unclear.

In short, the weapons and the soldiers are in place. The diplomatic work is making progress. The local opposition is nearly lined up. What remains is to find the right target and strike.

Another kind of war

Even if the time has not been wasted, the delay between the attacks and the still-awaited military response has been surprising. Things have moved slowly not only because of all the preparatory military and diplomatic work, but because the administration understands it also has a war of ideas to fight. It has to persuade America, its allies and Muslims around the world that its fight is against terror, not Islam. If it fails, Muslim support for the campaign will collapse; a backlash against America and its allies might create huge new problems (such as the Talibanisation of Pakistan); and, in the longer term, the hope of peaceful modernisation of the Arab states will be gravely set back.

To begin with, it must be said, the propaganda war did not go well

To begin with, it must be said, the propaganda war did not go well. Soon after the attacks, the president was asked to characterise the coming conflict. After struggling for a word, he chose “crusade”. In western usage, this term long ago lost its original religious meaning (a war for the cross). In Arab countries, it has become a new term of abuse, referring not so much to medieval Christian attacks on Jerusalem as to perceived western triumphalism in dealing with Muslim countries. Mr bin Laden calls his organisation the Islamic Front for Jihad against Crusaders and Jews. Mr Bush's use of the term was pounced on in the Arabic press, and undid much of the credit he had gained by visiting mosques and deploring attacks on Arab-Americans.

Worse was to follow. On September 26th, Silvio Berlusconi, Italy's prime minister, delivered a prepared speech about “the superiority of Christianity” and the need to “occidentalise” the Middle East. (He later said his remarks had been taken out of context.) Newspapers throughout the Arab world splashed his comments across their front pages, and devoted yards of criticism to them. The Arab League and the Egyptian and Lebanese governments angrily demanded an explanation.

A matter of presentation

Yet the difficulties of waging a propaganda war go beyond the propensity of some western leaders to stuff feet in mouths. Even in America, there are vocal critics of military action, who see it not as a war against terror but as an outburst of blind revenge, waged in support of decades of bad policy (see article). They may not seem to matter: over 80% of Americans favour retaliation. But such critics are more numerous in Europe, and in America their influence is likely to grow.

Even now, a humanitarian disaster is unfolding in Afghanistan before a shot has been fired—much of it in front of the world's television cameras. When the bombs start falling, and the exodus increases, that disaster will probably be blamed on the West. (People will forget that more than 4m refugees fled from Afghanistan long before September 11th, driven out by civil war, drought and the Taliban's misrule.) America has to do what it can to defeat this argument. It is already the largest donor of food to Afghanistan. On October 1st, Mr Bush said he would send another $100m-worth, about a fifth of what the United Nations High Commissioner for Refugees says will be needed.

But America may have an even bigger problem in winning the propaganda war: those Americans, largely on the right, who think the country will indeed eventually have to wage war on Islam—or, at least, various chunks of the Muslim world. These voices say that you cannot defeat terror without confronting its backers in Iraq, Iran and to some extent Saudi Arabia and Syria. They also demand a policy based on respect for democracy and human rights, which, they say, means confronting both fundamentalist Islam and the repressive secular regimes that are part of the American-led coalition.

One version of this line of attack has already divided the administration. Paul

AP

Wolfowitz, the deputy secretary of defence, has clashed with the secretary of state, Colin Powell, over whether to overthrow Saddam Hussein as well as the Taliban. This dispute has not been settled, just deferred. Iraq's leader, of course, is no Islamist and Mr Wolfowitz wants him out for reasons of security, not doctrine. Still, Iraq's dictator is popular in many Arab countries; fighting him will be seen as an attack on another Muslim regime.

A few things to think about

More immediately, tensions have emerged between the requirements of the propaganda war and the need to keep the alliance together. A particular problem is Russia, where most people flatly regard Islam as their principal enemy. After some hesitation, Mr Putin supported America's use of military bases in Uzbekistan and Tajikistan. In exchange, he wanted America to suspend its criticism of Russian repression in Chechnya, whose uprising Mr bin Laden may well have supported. (Russia says one of the Chechen commanders is a Jordanian linked to al-Qaeda.) Mr Bush's spokesman duly backed the Russian president's ultimatum to the Chechens to break all ties with Mr bin Laden, or else. This caused anguish among America's human-rights watchers. If this happens over an action by Russia—a democracy, of sorts—imagine the outcry if Saudi Arabia or Jordan or Egypt cracked down on its government's Islamist critics.

As Arabs see it

However hard the fight for American hearts and minds may be, it will be easy in comparison with the battle for Muslim opinion in the Middle East. At the moment, at least, most Arabs do not believe a word they hear from Washington. Arab governments publicly distance themselves from America for their own survival; if they tried to rally their people to the cause of fighting terror, they might be repudiated.

Moreover, to make the case against terror effectively, Arab governments will have to overcome much of the anti-Americanism they themselves have carefully fostered, partly to deflect attention from their own unpopularity. That hostility has become more strident, both in the officially controlled press and on satellite television beyond the governments' grasp. Its refrain is that, by abandoning the peace process, America joined in a war against the Palestinians led by Ariel Sharon, whom most Arabs regard as a worse criminal than Mr bin Laden. It is unclear whether the administration's new support for a Palestinian state will make a difference.

At the moment, at least, most Arabs do not believe a word they hear from Washington

Despite everything, the propaganda war may not be unwinnable. Governments of Muslim countries, and their highest-ranking clerics, have been almost unanimous in condemning Mr bin Laden. Last Friday, the sermon preached by the sheikh of Egypt's Al Azhar mosque explained the right of a victim to strike back at his attackers. Most remarkable of all was the condemnation by Sheikh Mohammed Fadlallah, the spiritual leader of Hizbullah, which is on the State Department's list of terrorist organisations: “Although we are hostile to United States policy,” he said, “we are horrified at these operations, which no religion in the world supports.” The battle of ideas will be long and hard, but, if even Sheikh Mohammed can say that, victory is not beyond reach.

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Afghanistan

After the Taliban

Oct 4th 2001 | FAIZABAD, ISLAMABAD AND PESHAWAR
From The Economist print edition

Who will take power if the Taliban are overthrown?

Get article background

AP

NEARLY a month after the destruction of the World Trade Centre, the Taliban still rule Afghanistan—but not, perhaps, for much longer. The United States is convinced that the fundamentalist movement, which seized power in 1995-96, still harbours the mastermind of the terrorist attack. World opinion has sanctioned actions that may result in the Taliban's forcible removal from power.

In the Taliban's prospective demise, many interested parties spy an opportunity. Afghanistan has been at war since the Soviet invasion of 1979. Its people are impoverished; the state barely exists. Under the Taliban, it became the hub of a movement to purge Muslim lands of western influence through terror, and to impose Islam in its most rigid form. Now there is a chance to charge the citadel of violent fundamentalism and replace militant Islam with a less threatening Afghan patriotism.

One possible key to solving the problem lies with Afghanistan's 86-year-old former king, Muhammad Zahir Shah, who took his crown in 1933 and lost it in a palace coup 40 years later. Zahir Shah says he does not intend to restore the monarchy. But he is willing to return to Afghanistan to rally the widespread loyalty he commands around a new dispensation. On October 1st the main opponents of Taliban rule agreed in Rome, where the ex-king lives in exile, to form a 120-member “supreme council”. This in turn may convene a *Loya Jirga*, a traditional gathering of tribal elders and other notables, last called in 1964, for the purpose of choosing a head of state and a transitional government. The agreement includes the United Front, more popularly known as the Northern Alliance, the only serious armed opposition to the Taliban regime.

This is encouraging. Agreement between the king and the Northern Alliance harks back to an earlier and more harmonious notion of Afghan identity. The former king, like most of the Taliban, is a member of the Pushtun, a people, also called Pathans, who constitute about half the population. The Northern Alliance consists mainly of smaller groups such as Tajiks, Uzbeks and Hazaras, who share the Shia Islam of Iran: that the king speaks Persian rather than Pushtu is reckoned a point in his favour. A recent poll inside Afghanistan, sponsored by America's State Department, purported to have found he was backed by 51% of Afghans. Mullah Muhammad Omar, the Taliban's leader, came second, with 11%.

The king is not acceptable to all Afghans. Nor, more worryingly, are all his supporters acceptable to each other

Yet there are problems. The king is not acceptable to all Afghans. Nor, more worryingly, are all his supporters acceptable to each other. The Taliban are still struggling to survive. According to the *News*, a Pakistani newspaper, they are convening gatherings of their own to rally the support of important Pushtun tribes. An elder of the Popalzai tribe, to which Zahir Shah belongs, said it would wage *jihad* against the United States if it attacked Afghanistan.

In addition, Pakistan may not have entirely given up on the Taliban. Foreign observers believe that some elements of Pakistan's leadership, especially in the military Inter-Services Intelligence agency, are pressing for the sacrifice of Mullah Omar in order to save friendly “moderates” among his colleagues. Pro-Taliban sentiment is likely to be reinforced by the rise to favour of the Northern Alliance, which Pakistan regards as a tool of threatening foreign powers, especially Russia and Iran.

The favour shown to the alliance also worries backers of the king, especially Pushtuns. The alliance includes figures with unsavoury histories, such as Abdurab Rassul Sayauf, a fundamentalist leader who some believe first invited Osama bin Laden to Afghanistan. “I will never work with the Northern Alliance,” declares Pir Sayed Ishaq Gailani, a spiritual leader who is spokesman of the National Solidarity Movement of Afghanistan, a new alliance of pro-king groups based in Peshawar. Support for the ex-king could anyway evaporate if Afghans come to see him as a tool of American interests.

Even within the fractious Northern Alliance itself, there may be misgivings about the king. Its political leader, Burhanuddin Rabbani, is president of the internationally recognised government of Afghanistan, although it controls only between a tenth and a fifth of the territory. Mr Rabbani may soon be out of a job.

Not such fun in the Taliban-free zone

In the quest for consensus, the main ally is desperation. You can see it in Faizabad, provisional capital of Mr Rabbani's state. Its rule is a lot better than in the places under Taliban control. Women may work; girls can go to school. With a population of 100,000, it boasts the only television station in the entire country. Enlightened, perhaps, but still pitch-dark at night. Since the electricity went off ten years ago, the town's 1,000-odd television sets must be hooked up to generators or car batteries.

The only airport is a crudely laid Soviet military airstrip, surrounded by derelict huts. There are no postal connections with the outside world, no public transport, no mains water, no newspapers, no banks, no public library, no theatre, cinema or museum, and no metalled roads. Heating is by firewood, brought by donkey from the fast-dwindling forests. There are 600 telephones, connected to a 60-year-old manual exchange. The government, let alone the public, has no access to the Internet.

In the quest for consensus, the main ally is desperation

The economy barely functions (see article). Change $100, and you get a carrier bag full of money. Salaries are tiny—the operator of the city's telephone exchange, an important personage, makes $20 a month. Hafiz, a 13-year-old refugee who shines shoes in the bazaar, does a bit better, supporting his family on a dollar a day. He has been working ever since he can recall, and has never been to school.

Three years of drought have stricken agriculture. A nearby district, Rogh, has lost 60% of its population. “People who had 50 sheep three years ago now have two or three,” says Amir Safawi, the local head of a Swedish relief organisation. There is malnutrition, tuberculosis and malaria. Yet tens of thousands of people are fleeing war and hunger for the relative prosperity, believe it or not, of Faizabad.

Holding out

For the past five years the Northern Alliance has been fighting the Taliban, largely unsuccessfully, on its own. The northern government and its friends currently control five bits of territory, separated by Taliban-controlled areas. Reaching the headquarters in western Afghanistan of Ismail Khan, one of the most impressive and moderate figures in the coalition, involves a helicopter ride over enemy lines, followed by days hiking through the mountains. Communication is by short-wave radio or satellite telephone.

The alliance's troops are mostly foot soldiers, fierce and skilful but without much formal training, armed only with light weapons and lacking air support. “We can take ground but then the Taliban come and bomb us back,” says one senior military figure. Abdul Nabi, a 22-year-old junior commander, says that his group of 56 men has just one truck. The Taliban, he says, all travel in Datsun jeeps. Bar some ammunition from Iran, he sees no sign so far of outside military help for his men. That is probably a bit grudging. Russia supplies fuel to the northern forces, and wounded fighters are treated in hospitals in ex-Soviet Tajikistan. Still, the big lack is logistics, air defence and combat aircraft.

The opposition forces have made some advances in recent weeks,

and claim hundreds of defectors from the Taliban side, including many conscripts. But the offensive now seems to have bogged down. The biggest weakness is in the leadership. There is no commander to match the stature and effectiveness of the north's assassinated military chief, Ahmad Shah Masoud. The precarious unity of the past few weeks could fall apart, as have past attempts to unite the anti-Taliban forces.

The Northern Alliance may be an important part of the attack on the Taliban. But victory will also require a southern strategy, to mobilise the mainly Pushtun populace around such Taliban strongholds as Kandahar. It may require American-led intervention, at least from the air. One diplomat foresees strikes against airfields and telecoms installations.

Rebellion may well be abetted by people like Abdul Haq, who fought the Soviet invaders in the 1980s and then left Afghanistan in disgust, he says, at the squabbling among the victorious mujahideen. Now the owner of an Internet café in Dubai, Mr Haq has returned to Peshawar to recruit a force that could join a Pushtun “Southern Alliance”. He is a potential recipient of the aid the American government intends to supply to anti-Taliban forces. Mr Haq reckons the war will be fast and short. American troops, he and almost all Afghans agree, should stay out of it.

Filling the vacuum

Creating a vacuum in Afghanistan would be all too easy—and its results could be terrible. When the Soviet-backed government fell in Kabul, Afghanistan's capital, lawless potentates stepped into the breach, making the Taliban's harsh rule seem a welcome relief, at least at first. Responsibility for avoiding a second instalment of “warlordism”, and creating a durable and popular system in its place, rests in part on the United States and its allies, in part on international bodies such as the United Nations, and in part on the frail shoulders of the king. It is still unclear whether all will rise to the challenge.

The first requirement is a framework that makes allies rather than competitors of Afghanistan's anti-Taliban forces. This will require a common command structure for the Northern Alliance and the southern forces, and an agreement on just how far each can go. It is a job for the king's men, but, says a senior diplomat, “If America wants Afghan allies, it should be encouraging this.” There must also be a mechanism for co-ordinating Afghan irregulars and foreign support.

The need for force will not end with the toppling of the Taliban. Mr bin Laden must be caught: besides him, an estimated 5,000-20,000 Arabs and other foreigners in Afghanistan who share his ferocity may have to be captured or killed. Peacekeeping will require western money, advice and, possibly, a multinational force, probably including soldiers from some Muslim countries. This force would be more palatable if the repatriated ex-king invited it in.

The need for force will not end with the toppling of the Taliban

A nation to build

The United States has said that it will not engage in “nation-building”. Yet inattention could be disastrous. Although the transitional government selected by the *Loya Jirga* will, if all goes according to plan, be formally in charge, it will be wholly reliant on international aid to rebuild Afghanistan's shattered institutions and what it has in the way of public services.

International help will also be needed to reconcile competing ethnic and religious groups and win the support of Afghanistan's six neighbours for a new government. The first task may begin with an internationally monitored census, to establish who the Afghans really are and, after 23 years of war, where they are. In the inevitable squabbles among ethnic groups over spoils and political power, international bodies can be the referee.

Afghanistan will be asked to reassure its neighbours about the future. Iran, having overthrown its own shah in 1979, is reluctant to see one restored next door. Pakistan fears that any Afghan government it

does not control will be a tool of India and a stirrer-up of nationalism among its own Pushtuns. One reassuring gesture would be recognition by Afghanistan of the Durand line, the porous border between Pakistani and Afghan Pushtuns, which Pakistan has long sought in vain.

The Afghans must choose their own future. Will it be one their neighbours, and the West, will like? Yes, it could be—if the Afghans see that what's good for the world is good for them.

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America and Israel

The unblessed peacemaker

Oct 4th 2001
From The Economist print edition

“America is paying for the crimes of Israel.” Discuss

IN ALMOST every Arab capital today, you can find people who believe the theory that Israel masterminded the terror attacks on America on September 11th. Israel's critics in the West do not go that far. But many argue that Israel is indirectly to blame, because the protection it receives from America makes America itself a target of Muslim rage. America, in short, is paying for the crimes of Israel.

The crude version of this argument—if Israel did not make Arabs angry, the attack might not have happened—can be swiftly disposed of. In Osama bin Laden's 1998 *fatwa* against America, Israel ranks last—after America's “occupation” of Saudi Arabia during the Gulf war and its continuing attacks on Iraq—among the three causes he gives for his war against America. His first big atrocity, the bombing in 1998 of American embassies in Kenya and Tanzania, coincided with a time of unusual optimism in the Israel-Palestine peace process, well before the outbreak of the Palestinian *intifada*. He has shown scant interest in the Palestinians; and they, to their credit, have so far shown scant interest in him.

A second line of argument holds that support of Israel blackens America's reputation in the Arab and Muslim worlds and so complicates its attempts to build a coalition against terror. This is undeniable. If the Jewish state did not exist, America's relations with the Arabs would be simpler. James Forrestal, America's defence secretary, foresaw this in 1948, when he tried to talk Harry Truman out of recognising the new state, lest this antagonised the Arabs and hampered American access to their oil. But since Israel does exist, and has a birth certificate from the United Nations, it is right for America to support it.

The charge that matters is that America's support has been one-sided and excessive. On this view, America has succoured Israel financially, armed it to the hilt, encouraged its expansion and turned a blind eye to the pleas of its downtrodden victims, especially the Palestinians. As George Bush is now discovering to his cost in his war against terrorism, most Arabs hold this truth to be self-evident. It is not. The evidence of history—always such a bore—repays examination.

Slow start

When is this unholy alliance between Israel and America supposed to have started? Not right away. For the first 20 years of Israel's life America was a sympathetic friend rather than a close ally. Truman himself kept the new state at arm's length. In 1957 Eisenhower forced Israel out of the Sinai peninsula, which it had invaded as part of the Anglo-French Suez adventure. Until the mid-1960s France, not America, supplied Israel with its weapons. No American president set foot in the country until Richard Nixon.

The change came in 1967. Israel's remarkable victory in the six-day war captured the imagination of American Jews, led to the formation of a powerful Israel lobby in America's domestic politics and planted the idea among some American politicians that Israel might be a useful helper in the cold war. As a dynamic westernised democracy, Israel played better in America than the Soviet-oriented Arab dictatorships of Syria and Egypt. But at no point did America endorse the idea that the lands Israel captured in 1967 could be legitimately held. Since 1967, America has stood behind the land-for-peace formula enshrined in Security Council Resolution 242. Successive administrations have declared Jewish settlements in the territories illegal under international law and an obstacle to peace.

Should America have done more after 1967, beyond fine words, to implement Resolution 242? Perhaps. But those who say so forget how matters between Israel and the Arabs have stood over the years. From 1948 until Egypt alone broke ranks in 1979, the Arab states and Palestinians alike refused to accept Israel's right to exist under any circumstances and within any borders. As for Resolution 242, the Palestinians themselves rejected it out of hand. There could, said the Arab League from Khartoum that year, be no negotiation, recognition or peace with the Jewish state.

Forty years of saying no

This intransigence is now history. Few governments, save Iraq and Iran, still propose sweeping Israel away. But history has consequences. One was to make it easier for Israel to plant settlements: many early ones were justified on strategic grounds, which made some sense when its neighbours were bent on Israel's destruction. Another was to block diplomacy. How could America be “even-handed” when one side's demand was the eradication of the other? The Arabs' rejection continued for an unconscionable period. Yasser Arafat's Palestine Liberation Organisation waited until 1988—40 years and five wars late—before renouncing terrorism and recognising Israel's right to exist.

Mr Arafat's 1988 decision was a breakthrough. And when such breakthroughs have created chances for mediation, most American presidents have tried to grab them. Richard Nixon saw the conflict through a cold-war prism, with the Middle East as a place to win client states and avoid a superpower war. But even he tried to push the disengagement agreements after the 1973 Yom Kippur war into something more substantial. Jimmy Carter, with a Christian faith in the possibility of peaceful compromise, tried hard to turn Anwar Sadat's stunning trip to Jerusalem into a broader Arab-Israeli settlement. He drafted the first version of the Camp David agreement, and pored over maps of the Sinai. As a reward for the 1979 Egypt-Israel treaty, Congress gives Israel $3 billion of aid a year and Egypt $2 billion.

Ronald Reagan, though an admirer of Israel, bitterly opposed Menachem Begin's invasion of Lebanon in 1982, and sent American marines, some of whom were killed, to oversee the evacuation of the PLO from Beirut. After the eruption of the first Palestinian *intifada* in 1987, George Shultz, his secretary of state, offered to start talks with the PLO if Mr Arafat renounced terrorism. When at last Mr Arafat did so, the administration of George Bush senior, no fan of Israel, brushed aside the protests of Yitzhak Shamir, Israel's Likud prime minister, and authorised the State Department to begin a “substantive dialogue” with the PLO. In 1991, after the Gulf war, Mr Bush dragged a reluctant Mr Shamir to a peace summit in Madrid.

There is a myth that American policy in the Middle East has been hijacked by AIPAC, the mighty Jewish lobby in Washington. But presidents beat foreign-policy lobbies, if they can be bothered to try. When AIPAC tried to stop Mr Reagan from selling AWACS aircraft to the Saudis, the president won handily. In 1989, James Baker, George Bush senior's secretary of state, went to AIPAC's annual convention and denounced Mr Shamir's belief that Israel should hold on to the West Bank and Gaza. In 1991 he brushed off AIPAC'S objections when America threatened to withhold loan guarantees if Israel continued to expand its settlements.

Camp David, and before

This is not the record of a superpower with no interest in peace or justice. That is why much of the present criticism of America homes in on the past decade. In one such article, Anatol Lieven, of the Carnegie Endowment for International Peace, accused America of sticking to policies which were needed when Israel's existence was threatened but are no longer justified.

Strange, though, that Americans should face such a charge now, when they have just invested ten years of diplomacy in an attempt to create an independent Palestine alongside Israel in the West Bank and Gaza. Bill Clinton, in particular, made a supreme effort. He brought Mr Arafat and Mr Rabin together on the White House lawn, and presided over a peace treaty between Israel and Jordan. He was fond of Israel and especially Yitzhak Rabin, but thrilled the Palestinians by visiting the Gaza strip in 1998. At Camp David last July, he came within fingertip reach of mediating a final deal between Ehud Barak and Yasser Arafat.

What went wrong? The answer is hidden in a fog of recrimination. The Palestinians say that the summit was premature, bungled, and that Israel conceded too little: not really a proper state. Dennis Ross, the senior American diplomat involved, says that Israel put a generous offer on the table and that Mr Arafat, trapped in a mythology of victimhood, failed to respond. But Mr Clinton has left little doubt about his own preference. He proposed the creation of a Palestinian state.

This state would be created in Gaza and on 95% of the West Bank. It would also get a sliver of Israel proper, to compensate it for some settlement blocks that would be annexed to Israel. Settlers outside those blocks would come under Palestine's sovereignty. The new state would have its capital in East Jerusalem, and divided sovereignty on the Temple Mount. Palestinian refugees would be resettled either in the Palestinian state or in other countries, with some tens of thousands returning to Israel proper.

If this was the American position, does it reflect a bias towards Israel? Bias is in the eye of the beholder. What is plain is that the Clinton plan is consistent with the principle of self-determination and with the land-for-peace principle enshrined in Resolution 242. This, by the way, does not call, as is sometimes alleged, for Israel's unilateral withdrawal from all of the territory it occupied in 1967. It says that Israel should withdraw, in the context of a peace agreement, to secure and recognised boundaries. By design, it leaves open the possibility of altering the 1967 borders. Despite this, American administrations have declared over the years that they foresee only minor border rectification; and Mr Clinton stood by this at Camp David.

Reuters

Appealing to the Arab world

To judge by the wails that went up on the Israeli right when Mr Clinton's ideas were published, America was not serving just then as Israel's stooge, pursuing obsolete policies. So America's alleged guilt presumably arises not from Camp David, but from the six years before it, when the Oslo peace process appeared to stagnate.

This is the wisdom of hindsight. In 1993, when it became known that the Israelis and Palestinians had at last been holding secret talks with one another, instead of working through intermediaries, it made sense for the intermediaries to step back. Moreover, helped along by the Americans, Oslo did produce an agreement—and big changes on the ground. Israel withdrew from the main populated areas, the PLO returned from exile and Mr Arafat set up his Palestinian Authority. The expectation was that five years of self-rule and confidence-building would culminate in an independent Palestine.

That this timetable slipped was hardly America's fault. Progress was disrupted by violent events, notably

the assassination of Labour's Yitzhak Rabin and the election—after a campaign of suicide bombings by Hamas terrorists—of an obstructive Likud-led government under Binyamin Netanyahu. By 1999, however, a new Israeli government under Mr Barak was impatient to negotiate a final peace on all fronts. Mr Barak turned first to Syria and Lebanon, without success. By the following summer he was putting his own offer of statehood to Mr Arafat at Camp David.

Camp David, and after

When George Bush became president this year, things had fallen apart in style. Camp David had failed, the Palestinians had launched a new *intifada* and Ariel Sharon, a hardliner from the Likud Party, had replaced Mr Barak. Having watched Mr Clinton bash against a brick wall, the new president was reluctant to dive straight after him. By Mr Clinton's exacting standards, he has been relatively disengaged. This, predictably, has given rise to a new charge of bias. America fiddles while Gaza burns, pounded by Israel with American-made weapons. Why don't the Americans simply instruct their client to stop the carnage?

Easy to say. But the violence is not one-sided. It has, in point of fact, been initiated by the Palestinians. Justly or not, they believe themselves to be fighting for national liberation. Their aim is to drive Israel from the territories by force, and their means include shooting Israeli soldiers, ambushing motorists, planting mines and car bombs, and—in the case of Hamas and Islamic Jihad—suicide bombings of youth clubs and pizza parlours. Israel's aim is to stop them. Its means include blockades, curfews, lethal gunfire against demonstrators and the assassination, often by helicopter gunship, of alleged ringleaders. America can blow a whistle, and hope for a pause, but neither side has been keen, during this trial of strength, to retreat under fire.

Now that America needs allies, it is working harder than ever to make a ceasefire stick. Mr Arafat has been quicker than Mr Sharon to spot the advantage to be gained by announcing compliance. But the Americans were blowing their whistle well before September 11th.

Since the start of the *intifada*, the State Department has called many times on the Palestinians to cease their attacks and on Israel to cease its “excessive” reactions. George Tenet, the director of the CIA, travelled to the region to revive security co-operation between Israel and the Palestinian Authority. An American-led commission under former Senator George Mitchell has put forward the only existing route map from a ceasefire, via confidence-building measures, back to political negotiations. Again, the record does not point to an America that has turned its back insouciantly on a region in flames.

Israel's crimes

Some critics of American policies take a different tack. America's problem in the Middle East is not that it is biased but that it strives to be even-handed in an uneven conflict. In a quarrel where one side (the Israelis) is strong and wrong and the other (the Palestinians) is weak and right, the proper job of the superpower is not to split the difference but to impose justice.

Fine—if you accept the premise, and can work out where justice lies. But this is to treat the past decade of peacemaking, and the upheavals it has caused inside Israel, as if they had never happened.

Back in the days of Begin and Shamir, Israel's Likud governments really did hope for eternal Jewish dominion over the whole of the West Bank and Gaza. But during the past ten years Israel has had two prime ministers—Mr Rabin and Mr Barak—convinced of the need for Israel to let an independent Palestine clamber to its feet in the West Bank and Gaza. Both tried to forge such an agreement with Mr Arafat. Mr Rabin put his faith in the gradualism of Oslo, and is now criticised for his caution. Mr Barak pushed for a final deal at Camp David, and is now criticised for his impetuosity.

EPA

The failure of Camp David, and the subsequent election of Mr Sharon as prime minister, do not mark a return to the folly of Greater Israel. His election was a product of the *intifada*, not a cause of it. Though a Likudnik, with territorial ambitions, he leads a broad coalition united mainly by a desire to subdue the uprising in a way that betrays no weakness. His harsh tactics in the territories are supported, by and large, by Mr Barak and other Labour politicians.

The peace camp in Israel has been gravely weakened by Mr Arafat's rejection of what Israelis considered a fair settlement, and even more by the spectacle of the Palestinian Authority, created to "build confidence", turning its guns on Israel. But the *intifada* has also made it plainer than ever to many Israelis that perpetual rule over the territories is an impossibility.

And still it goes on

If the guns fall silent, Israel's debate about what to do about the territories will flare back to life. Hope may flare, too, but much will depend on America. It has already played an indispensable role in peacemaking: giving Israel the weaponry to make the radical Arab states realise that destroying Israel is not a near-term option, brokering peace with Egypt and helping to close the Oslo deal, giving cash inducements to Egypt and Jordan as a reward for their peacemaking efforts, helping Israelis overcome their feelings of isolation and abandonment by the non-Jewish world.

When he has completed his war against terrorism, and debts fall due from his Arab helpers, Mr Bush may show less patience than previous presidents towards Israel's fears. With America's own security at stake, Mr Bush will care less about Israel's. But in that case, America will not be paying for the crimes of Israel; Israel will be paying for the crimes against America.

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National security

Testing intelligence

Oct 4th 2001 | WASHINGTON, DC
From The Economist print edition

Intelligence operations will be the most important part of America's war against terror. The intelligence services are not yet up to it

IT WAS one of the biggest intelligence failures the world has ever seen. At least 19 people worked for as long as five years, mostly in the United States, on a complex operation to crash multiple airliners into several targets. And America's $30 billion-a-year intelligence services hardly got a whiff of them. Why not? And what can be learned from the failure?

The fact that so much planning was done in America points the first finger of blame at the agency in charge of domestic intelligence, the Federal Bureau of Investigation. There is some evidence that the FBI knew that something was going on. In 1995 Philippine intelligence passed on plans by Ramzi Yousef, a now-convicted terrorist, to hijack an airliner and ram it into either the CIA headquarters or the Pentagon. The FBI also knew that several people with links to al-Qaeda had been taking private flying lessons. And at least two of the suspects were on a “watch list”.

If the FBI were primarily responsible, it would be somewhat comforting, because the problem would seem fixable. The Justice Department, for instance, turned down an FBI request to put a wiretap on one suspected hijacker. Congress is likely to loosen rules like this which hamper domestic intelligence-gathering.

But the bureau is not the problem, for two reasons. First, if a terrorist group is careful, close-knit and not making large purchases of illegal materials (as in this case) there is little the FBI can do with wiretapping and other law-enforcement techniques. Short of turning America into a police state, there will always be an irreducible amount of operational details that cannot be investigated in advance.

Second, the FBI is a law-enforcement and criminal-investigation agency—and terrorism is a matter of national security. Its limits overseas were shown in attempts to investigate three previous attacks on American targets abroad—the Khobar towers in Saudi Arabia in 1996, the East African embassies in 1998 and the *USS Cole* in 2000. Revealingly, in the Khobar towers case, the Saudis refused to co-operate with a mere domestic law-enforcement body.

That suggests the response to the intelligence failure this time must include the CIA, the National Security Agency and even bodies such as the Justice Department. Together, they have been found wanting. The daunting fact is, however, that some of the criticisms had already begun to be addressed before September 11th, and it is not clear how much more incremental change can achieve.

The most sweeping complaint is that the intelligence services failed to appreciate the true threat of global terrorism. The intelligence services' job—once focused on the Soviet Union—has been made more complex by nuclear proliferation, organised crime, narcotics and so on. Since they lacked a clear hierarchy of enemies, they underestimated terrorism.

The evidence is not all bad. The CIA set up a unit to follow Osama bin Laden as long ago as 1995, and even attempted to assassinate him in 1999. But the FBI consistently argued in the 1990s that Mr bin Laden was not a primary security threat. And nothing happened when a CIA field officer in the Middle East tried to persuade the agency to collect more intelligence on Afghanistan from Central Asia.

The idea that intelligence-gathering needs rethinking is hardly new. After the embassy bombings of 1998, a National Commission on Terrorism proposed many changes—for instance, more spies on the ground, looser wiretap authority—that are now being discussed. In July 1999, the defence secretary, William Cohen, warned about terrorists using chemical or biological weapons. Earlier this year, a commission under Gary Hart and Warren Rudman, two former senators, proposed sweeping governmental changes to set up a department of homeland defence.

Little attention was paid by anyone (including, just as culpably, the media). Critics now argue for five main changes, none of which looks like a solution:

•**Hire more spies.** Until recently, the CIA had neglected its networks in the Middle East. The agency now has fewer Arabic-speaking case officers than in the cold war, though it began to reverse the decline three years ago. Reuell Marc Gerecht, a former case officer in the CIA's near-east division, says it still has no one to penetrate terrorist groups because “operations that include diarrhoea as a way of life don't happen.” Whether they could penetrate al-Qaeda even if they tried is another matter.

•**Change the hiring rules.** In 1995, under pressure from Congress, the CIA said it would not hire thugs and criminals. The Bremer Commission last year thought this was cutting off sources of information and hurting morale. Intelligence officers dispute this, saying that in practice, they have been able to hire whom they want: it has just required approval from above.

•**Improve professionalism at headquarters.** Complaints on this score are legion. There are stories of a Saudi desk officer who couldn't speak Arabic, and of Robert Rubin, the former treasury secretary, saying he could get better economic information from his old firm, Goldman Sachs. The CIA's Directorate of Operations, which recruits spies, has been hurt by the resignations of several senior people lately, and the agency's practice of hiring inexperienced young people has come under fire.

•**Change priorities.** Many critics say that the intelligence services pay too much attention to satellites that vacuum up too much useless information (far too much: 90% is not analysed). Paying more attention to old-fashioned sleuthing would help. But when technology is changing communications even for terrorists, spies are unlikely to turn their back on satellites.

•**Improve co-ordination**. The design of the intelligence services, with their multiple agencies, dates back to the cold war. Some—notably the FBI—are notoriously slow to share information. But this may be the least significant problem. The CIA and FBI now routinely swap senior personnel. The Counter-Terrorism Security Group, which brings together the counter-terrorist heads of the CIA, FBI, the National Security Council, the Joint Chiefs of Staff and the departments of state, defence and justice, now works well.

Time for an outside eye?

George Tenet, the CIA's director, may still lose his job. And the House intelligence committee wants “significant structural changes like no other time in our nation's history.” In fact, radical transformation is unlikely. The easiest reforms are under way, and some new proposals are dubious. But there is one further idea. Richard Perle, a former deputy secretary of defence, points out that the first President Bush, when head of the CIA in the 1970s, solved another crisis, to do with intelligence-gathering on Russia, by bringing in a group of outside advisers under Richard Pipes, a Harvard professor. Perhaps Mr Bush's son should do the same.

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The investigation

The hounds have their noses down

Oct 4th 2001 | LONDON AND WASHINGTON, DC
From The Economist print edition

The links to Osama bin Laden grow stronger, if not yet conclusive

SO FAR the twisting trails from 19 dead hijackers have led to 540 investigative interviews, 383 searches, some 4,407 subpoenas being issued and the detention of more than 500 people. And that is just inside the United States. Another 150 people have been arrested in 25 other countries. A firm link between Osama bin Laden and the hijackers has yet to be shown in public. But some of the ties linking the main suspect to the events of September 11th are starting to emerge.

The investigators say that before the attack one of Mr bin Laden's most trusted moneymen, Mustafa Ahmad, also known as Sheikh Saeed, wired money from his bank account in Dubai to Muhammad Atta, the hijackers' suspected ringleader. The hijackers returned the left-over money to Mr Ahmad on the eve of the attack. Authorities in the United Arab Emirates have frozen all accounts in Mr Ahmad's name, but Mr Ahmad has so far escaped capture.

Circumstantial evidence links four more of the terrorists with Mr bin Laden. According to American investigators, Khalid al-Midhar and Nawaf al-Hamzi, who were on the airliner that crashed into the Pentagon, were filmed in January 2000 in Malaysia meeting al-Qaeda operatives connected with the suicide bombing of the *USS Cole*. Wail al-Shehri, who was on board one of the jets that crashed into the World Trade Centre, reportedly spent time at one of Mr bin Laden's training camps in Afghanistan. Another WTC attacker, Hamza al-Ghamdi, is said to have been a bodyguard of Mr bin Laden's.

None of this makes Mr bin Laden beyond doubt the master-villain. But information gleaned from spies and wire-taps has apparently convinced America's allies. Tony Blair, Britain's prime minister, says he has seen “incontrovertible evidence” of Mr bin Laden's involvement. NATO's secretary-general, George Robertson, says that the alliance's 18 other members have been won over by the evidence offered by the American government. Donald Rumsfeld, the defence secretary, is travelling to several Arab countries in part to share some of the evidence with them.

The FBI is also beginning to build up a better picture of the 19 hijackers. Even though they were spread across several different cities, they appear to have worked as a unit, with Mr Atta as the leader. Documents found in his luggage suggest that he wrote instructions for the hijackers, reminding them to pack their passports and knives, and urging them to “welcome death for the sake of God.”

Besides Mr Atta, three other hijackers were competent pilots and two more had spent a few hours learning to fly. These six appear to have been close friends (three shared rooms while students in Germany), and to have stayed in America for up to 18 months before the attacks. The other 13 hijackers, who had the job of controlling the passengers, were younger and less educated and had arrived in America more recently. All the muscle men were apparently Saudi Arabian.

Investigators also seem increasingly convinced that one or two other hijackings were in the works, and are focusing on three men in custody who received flight training. One was detained while seeking flight-simulator training in Minnesota; the other two were arrested on a train in Texas after leaving an aircraft that was grounded after the attacks.

Some substantial progress has also been made in Europe. In Germany, intelligence agents intercepted a telephone conversation in which followers of Mr bin Laden celebrated the attack on September 11th and referred to “the 30 people travelling for the operation”. This suggests that 11 men connected with the plot are still at large. The French police say that, in a raid in Paris, they have found a code-instruction book that may well have been linked to the attacks. In Britain, the intelligence services have detained Lotfi Raissi, an Algerian pilot who is thought to have been the “lead instructor” to four of the 19 hijackers

while they were all in Arizona. But nobody has yet actually confessed to anything.

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The defence review

Don't even think about it...

Oct 4th 2001
From The Economist print edition

The merits of a palpably hard fist

DURING the months of back-room arguments that preceded the publication of America's Quadrennial Defence Review (QDR), two assumptions were made. First, America's clear lead in all conventional weapons would deter states from following Iraq's foolish decision a decade ago to challenge America's tanks, aircraft and helicopters to a contest of like against like. So, second, any new military challenges would be non-conventional. America's opponents would take advantage of the openness of its society and economy. And the adversaries would not necessarily be organised states.

Much of this speculation about “asymmetrical warfare” was on the right lines. But the QDR—published on September 30th, after a rapid update to take account of recent events—acknowledges that nobody guessed how devastating the change would be, and how elusive the enemy would prove. The QDR concludes that America needs more of just about everything, especially communications and surveillance equipment, overseas bases, and long-range aircraft and ships.

Unlike its 1997 predecessor, the new four-yearly review makes no precise recommendations about the structure of America's armed forces, such as cuts in the regular army and its reserves to release money for more high-tech weapons (which many people have called for). But it does urge a huge new investment in the means, both low-tech and high-tech, to protect the American homeland.

It adamantly rejects the temptations of isolationism, however. It insists that, because of its global interests, America needs a “forward presence”, especially in the Indian Ocean and the Pacific. Although it does not explicitly turn its back on Europe, it emphasises the “broad arc of instability” stretching from the Middle East to north-east Asia. This area contains an explosive combination of declining and rising powers, some of which are capable of building or buying non-conventional weapons.

This will require an increased naval presence in the Pacific: more surface ships, more submarines and more intensive patrolling by aircraft carriers. More bases and refuelling facilities will be needed in the Pacific and Indian Oceans. The navy needs more money for “rapid sea-lift”, so that warships can move swiftly to the Indian Ocean or the Gulf from the Mediterranean or even farther afield.

All this sets the stage for fresh arguments. Both the advocates and the critics of anti-missile defences, for instance, can now expect to be asked which of their arguments is likelier not only to protect the United States itself but to preserve the military balance in Asia. The QDR does not settle the fate of controversial weapons such as the highly mobile Crusader artillery piece or the V-22 tilt-rotor aircraft. But it endorses the principle of “transformation”—technological leaps designed to take full advantage of information technology. It also accepts the worries of many defence specialists about “gaining access” to war zones. America could find it very difficult to insert its soldiers into distant battlefields if its adversaries possess even some crude missiles or some old-fashioned submarines. The arms makers will have to provide an answer to this.

Still, advocates of sharply increased spending on defence will be reassured by the new axiom that has entered the language of military planners: that of “dissuasion”. This holds that it is worth investing in state-of-the-art weapons (an anti-missile shield, for example) in order to convince potential enemies that they cannot hope to challenge the United States. Even when there is no immediate challenge to American superiority in a particular sort of weapon, it may be worth spending more money to extend America's lead and pre-empt any possible challenge. “Don't even think about it,” in short.

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The legal battle

Hitting where it hurts

Oct 4th 2001 | NEW YORK
From The Economist print edition

The American taxpayer may end up paying Osama bin Laden's legal bills

AMERICA is a country of laws, the refrain goes; no less is it a country of lawyers. One battle in the war against terrorism will end up being fought in the courtroom—with the target being Osama bin Laden, but the damages perhaps being met by the Treasury.

After other airline disasters, lawyers have won enormous damages from the carriers on behalf of the victims' families. In the recent tragedy, however, that approach seems less promising. The two carriers whose flights were hijacked, United and American, have both been granted a cap on their legal liability in the bail-out package hurriedly passed by Congress after the disaster.

The alleged hijacker-in-chief, Mr bin Laden, on the other hand, has no such legal protection. More important, neither do the states deemed to have supported him.

Under American law, foreign states are immune from being sued. But a 1996 law designed to punish state sponsors of terrorism said that countries named by the State Department as supporters of terrorism are not immune. These include Iraq, which some people reckon is one of Mr bin Laden's backers, but not (yet) Afghanistan, whose ruling regime has never been officially recognised by the United States.

In the past, suits against sponsors of terrorism have led to large awards. In 1998 Stephen Flatow sued the government of Iran, on the ground that his daughter was the victim of a bomb planted by a Palestinian group that received money and arms from the Iranians. Iran refused to contest the case, but, using State Department sources to prove a link between the Iranians and the killers, Mr Flatow won in court. He was awarded more than $200m in punitive damages (according to the judgment, a sum three times the amount Iran spends each year on terrorist activities). The judge also awarded him large compensatory damages of $26m.

Mr Flatow's lawyers tried to collect the money by going after Iranian assets frozen in America, such as the former Iranian embassy in Washington, DC. But the State Department considered these properties immune from seizure, and argued that handing them over at the behest of an American court would not only violate the principles of international diplomacy but also endanger American property abroad.

In the end, to avoid the embarrassment of having to defend Iranian assets from a wronged American citizen, Congress and the Clinton administration hit on a compromise. Tacked on to a bill that addressed domestic violence, slavery and teenage suicide was a provision that directed the Treasury to pay out compensatory damages (but not punitive ones) to victims of terrorism who filed suit within a certain period of time. The provision stipulated that the federal government must then try to get Iran to pay the money back as soon as possible.

As a result, Mr Flatow got $26m. Others who had filed suit at the right time also received generous sums. Terry Anderson and Thomas Sutherland, who had been held hostage in Lebanon, won $41m and $53m respectively. That works out at about $10,000 per day in captivity, which has become the going rate in the courts.

In all, the Treasury has so far paid out more than $200m. Efforts to recover this from Iran cannot be made until Iran and the United States resume diplomatic relations, and even then the prospect seems dim. For its part, Iran has recently passed a law that allows Iranian victims of “American interference” to sue the American government in Iranian courts.

Last month's attacks will undoubtedly spur similar suits, should it emerge that they had a state sponsor. Lee Kreindler, a New York lawyer, says that some of the families of those killed in the World Trade Centre and on the hijacked airliners have shown interest. He hopes that some of the financial assets frozen by President Bush could pay for the damages. But unfreezing such assets could make things even trickier for American diplomacy. The point of holding frozen assets is to use them as leverage against the foreign regime, not to give them away.

If Congress wanted the Treasury to pick up the bill again, it would have to pass another law similar to last year's. Having once made such a concession, Congress may find it difficult to deny requests from the new victims for equal treatment. Indeed, similar requests are now in the offing. Crowell & Moring, the Washington, DC, firm whose lawyers prosecuted the lion's share of the cases against Iran, is now lobbying hard to extend last year's law to cover victims of terrorism in Kenya and the Middle East allegedly connected to Mr bin Laden. Stuart Newberger, a partner on the firm's terrorism team, believes the government can be swayed. “Both the Bush administration and Congress are very supportive of this idea,” he says.

The Treasury may find itself writing many more cheques if the courts are to protect both these victims' claims and America's diplomatic manoeuvring. Richard Mosk, a judge on the Iran-US Claims Tribunal at The Hague, argues that such lawsuits amount to “picking our own pocket”, and could cost the government millions while deterring terrorism not a jot. That is unlikely to stop the lawyers.

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Bipartisanship

Time to deal on trade

Oct 4th 2001 | WASHINGTON, DC
From The Economist print edition

The fate of fast-track will show whether Washington's new bipartisanship is worth having

SINCE September 11th, politics in Congress has been transformed. Gone is the party bickering and endless inaction. America's lawmakers claim a new urgency and a new bipartisanship. From anti-terrorism to economic stimulus, Republicans and Democrats say they are determined to work together to get things done quickly. Alas, the rising squabble about trade policy shows that real co-operation is limited, and a determination to look bipartisan can be dangerous.

It began on September 20th, when Robert Zoellick, America's top trade negotiator, used a speech and an article in the *Washington Post* to exhort congressmen to pass Trade Promotion Authority (TPA), the power once called “fast-track”, that the administration needs to negotiate international trade deals efficiently. In the article, entitled “Countering terror with trade”, Mr Zoellick argued that trade leadership was a component of America's counter-offensive against terrorism. “Trade is about more than economic efficiency,” he wrote. “It promotes the values at the heart of this protracted struggle.”

To anyone with a sense of history, this should be pretty uncontroversial. The global integration offered by trade promoted the values of “progress and pluralism, tolerance and freedom” that, in the words of George Bush, underpin the anti-terrorist campaign. As Fred Bergsten of the Institute for International Economics points out, America's global economic initiatives in the post-war period were all motivated “in very large part by foreign policy and national security considerations”.

Unfortunately, some reacted differently. Charles Rangel, the top Democrat on the House Ways and Means Committee, furiously accused Mr Zoellick of wrapping trade-promotion authority “in the flag”; it “would be laughable if it weren't so serious.” Robert Matsui, another Democrat, said he would now work strongly against a fast-track vote. Columnists jumped into the fray. Paul Krugman of the *New York Times* accused Mr Zoellick of exploiting a national crisis.

The truth is that Congress is at last making progress towards passing a trade bill, and this is putting many congressional Democrats, traditionally resistant to trade initiatives, on the defensive.

Bill Thomas, the Republican chairman of the Ways and Means Committee, has, together with three Democrats, put together a compromise TPA bill. In a big concession to the Democrats, the Republicans agreed that it should be an American objective to have labour and environment issues that are covered in trade agreements “enforced” just as other provisions are enforced. But from a Republican viewpoint, the bill is conveniently unclear on what kind of labour and environment issues are covered, and what “enforcement” means.

The bill, unveiled on October 3rd, may reach the House floor as early as next week. Its chances of passing there are improving. Several Republicans who normally vote against things like this have promised their support, which means that fewer Democratic votes will be needed to get TPA passed. The most optimistic Republicans reckon they can get the law through with the help of as few as 20 Democrats. And the compromise bill offers enough on trade and labour to lure a few more Democrats on board.

However, even under the best of circumstances, TPA will be passed along relatively partisan lines. This is not lost on opponents of free trade, who are fighting a rearguard action. From the Democratic leadership to the trade-union movement, those reluctant to pass the trade bill are now invoking bipartisanship on their side.

Richard Gephardt, the Democratic leader, says that moving on fast-track would jeopardise bipartisanship.

John Sweeney, the boss of the AFL-CIO union group, suggests that pursuing the fast-track approach “will erode the sense of co-operation and spirit of bipartisanship we want to see our country and its leaders continue to take.” A coalition of environmentalists wants to postpone TPA“until a more appropriate time”.

These tactics smack even more of opportunism than Mr Zoellick's. Unfortunately, they may be working. The White House, desperate to maintain the aura of bipartisanship, has been noticeably quiet lately on the subject of trade. Mr Bush has mentioned the importance of passing TPA, but he has hardly used his pulpit to ram it through. The subject was barely mentioned in this week's many discussions about the economy. Indeed, those discussions highlight the importance Mr Bush is attaching to bipartisanship: the White House appears to have discarded the more unpopular Republican suggestions for stimulating the economy (such as cutting the capital-gains tax) while showing interest in rebates for the poor and expanded unemployment benefits, which are favoured by Democrats.

When the demands of bipartisanship sink proposals, such as the capital-gains tax one, which are an ineffective tool for the task at hand, the approach makes sense. But on trade the demands of bipartisanship risk obstructing good policy. With the world economy heading for a recession, and global trade flows stagnant, the need for a new trade round to be launched at next month's meeting in Doha is all too clear—or should be. American leadership in that round would be dramatically strengthened if the administration had TPA passed by then. If the cause of bipartisanship prevents a president with a 90% approval rating in the polls from making that case loudly, it is a bipartisanship that is hardly worth having.

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Catfish in the South

The Vietnamese invade

Oct 4th 2001 | LAKE VILLAGE, ARKANSAS
From The Economist print edition

A feline-piscine trade fight

AP

Friend or foe?

A WORD on southern etiquette: never wear flip-flops to visit a catfish plant. At Farm Fresh Catfish, a processing plant in the humid Arkansas delta, bloody fish parts float in puddles on the floor. For the shower-capped men stabbing catfish on to a spiked rotating machine, the work is good money: $8 an hour in one of the poorest parts of America. Now they say that their jobs are being "stolen" by cheap Vietnamese imports.

Catfish is a Dixie delicacy that other Americans increasingly like. One recent poll placed it as the country's third-favourite seafood, beaten only by shrimp (prawns) and lobster. Around 600m lb (272m kg) of catfish, worth $500m, are sold every year in America. Nearly all the home-grown catfish comes from four states: Louisiana, Mississippi, Alabama and Arkansas.

Last year, some 7m lb of catfish were imported from Vietnam, compared with 2m lb in 1999 and 575,000lb in 1998. Despite their tiny share of the market, the Vietnamese are blamed by the farmers for falling prices, from about 80 cents per lb to 60 cents in the past year.

The southerners say they have to meet stricter rules than their Asian competitors. Their catfish are raised in clay-based ponds filled with purified water pumped from underground wells. A typical pond covers 10-20 acres, and is around five feet deep. All the American ponds have to be tested by the Department of Commerce and to meet the standards of the Catfish Institute (an organisation still grander than it sounds).

The Vietnamese catfish, often called *basa* or *tra*, have no such institute. They are raised in cages that float in dirty marshes in the Mekong river—or so says Marion Berry, a Democratic congressmen from Arkansas. Having visited the country this year, he was horrified by the conditions, and talks darkly about the possibility of toxins from the Vietnam war that might be still in the river.

Mr Berry is one of the backers of a bill in the House that would require country-of-origin labelling for all fish sold to consumers in the United States. The Vietnamese are also accused of using labels that include words like "Cajun" (to imply a Louisiana heritage). In July, Vietnam's ministry of fisheries announced a new rule requiring exporters to label their wares "Product of Vietnam" or "Made in Vietnam", but said nothing about Cajun.

This week Congress approved a bill to normalise trade relations with Vietnam. But several southern senators, led by Blanche Lincoln of Arkansas, also introduced a labelling bill that would narrow the definition of "catfish" to exclude *basa* or *tra* (which they claim to be as different scientifically from catfish "as a cow is from a yak"). There is also talk of an anti-dumping suit on the basis that Vietnamese catfish has, at times, been as much as $1 a lb cheaper than its American equivalent (the price fluctuates pretty dramatically).

The prospects for more precise labels are small. In many labelling arguments—particularly those over genetically modified foods in Europe—America is making exactly the opposite case, decrying enforced labelling as protectionist. Undeterred, the southerners will start selling their own fish with huge red, white and blue "Made in America" stickers.

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Lexington

Treason of the intellectuals?

Oct 4th 2001
From The Economist print edition

The anti-war movement is growing. It could do the left more harm than good

BACK in Vietnam days, the anti-war movement spread from the intelligentsia into the rest of the population, eventually paralysing the country's will to fight. At first sight, the danger of the same thing happening now looks slim. The overwhelming majority of Americans are solidly behind George Bush. Yet the drumbeat of opposition, already fairly deafening in parts of the European left, is building up in America.

At first Susan Sontag was almost alone in going public with her view that the terrorists were merely offering a critique of America's foreign policy. But last weekend saw peace protests in Washington, New York and San Francisco that took up her theme. Ralph Nader has asked people to put themselves “in the shoes of the innocent, brutalised people of the third world”. Op-ed articles brimming with peace or appeasement (according to your taste) have begun to migrate from the *Guardian* and *Le Monde* to those of the *Los Angeles Times*. Howard Zinn, the author of “The People's History of the United States”, says that he is “horrified and sickened” by all the talk “of retaliation, of vengeance, of punishment”.

Such voices will grow louder when people are killed. The television news already shows harrowing pictures of Afghan refugees. If Mr Bush's war is a drawn-out affair, it will impose great demands on the patience of a not very patient people.

In the 1960s, the anti-war movement struck a chord because many Americans, rightly or wrongly, thought it was saying something substantial. What about its successor? The peace movement starts off with the assumption that Americans need to understand why so many Muslim fundamentalists hate them. There is nothing wrong with this (and many people who are not remotely pacifists are looking at the same thing). But all too often, the pacifists leap to another argument—that the tragedy of September 11th was the inevitable result of America's arrogant and imperialist foreign policy. As the cliché of the moment has it, America is now reaping what it has sown.

This is woolly thinking at best. Perhaps the critics of America's foreign policy are referring to its interventions in Kuwait, Bosnia and Kosovo, when it was trying to help the local Muslims? These actions were as close to altruistic as you can get in the real world (which is why so many people on the left supported them at the time). Even in the areas where American policy has been less successful—for instance in the still unsolved Israel-Palestine tangle, or the effects of sanctions in Iraq—there is a worrying confusion between (legitimate) explanation and (unwarranted) justification of last month's terror. And there are few signs that America's withdrawal from the Kyoto Protocol played much part in Mr bin Laden's calculations.

A muddled message, though, would not necessarily limit the success of the peace movement. During the Vietnam war, protesters said a lot of things that now seem silly. This time, though, it will be harder for the anti-war left to hold its troops in line.

The problems begin with the nature of the enemy. Islamist fundamentalists don't object to the things that campus leftists dislike about America. They object to the things that they like, such as freedom of speech, sexual equality and racial diversity. Ho Chi Minh's communists had a sort of revolutionary chic. The Taliban's penchant for throwing acid in the faces of women who fail to wear veils and its lively debate as to whether the proper way to deal with homosexuals is to hurl them from tall buildings or bury them

alive does not endear it to Berkeley.

This has already divided the left. Groups such as the Feminist Majority Foundation were among the first to condemn the Taliban regime. Some of the fieriest polemics against “Islamic fascism” have come from left-wing luminaries such as Christopher Hitchens and Ms Sontag's son, David Rieff. Even the area of Arab grievance that has received most succour on the European left—Israel's heavy-handedness—finds much less sympathy among American liberals. The *New Republic* is unlikely to call Ariel Sharon a war criminal, at least in this century.

In the 1960s, the arguments between anti-war campus radicals and pro-war trade unionists introduced bitter splits into the Democratic Party, which contributed to its catastrophic defeat in 1972. This time, the workers seem even more solidly behind the troops—not least because the homeland is under far greater direct threat. Canvassers from the AFL-CIO, originally dispatched to drum up support for the anti-globalisation cause, are now collecting donations on behalf of the terrorism victims instead. On Capitol Hill, some of the left's fiercest firebrands, including Marcy Kaptur, the congresswoman from the rust-belt city of Toledo, in Ohio, have become the Democrats' leading hawks.

The question of the flag may be an indicator of the gulf between intellectuals and the rest of a frightened and increasingly patriotic country. The people who spontaneously bought the American flag to show their solidarity with those who were killed probably do not share the worry of Barbara Kingsolver, a leading feminist, that it “stands for intimidation, censorship, violence, bigotry, sexism, homophobia and shoving the Constitution through a paper shredder”; and they may not empathise with one writer at the *Nation* when she frets about her daughter wanting to hang a flag out of the living-room window.

The widespread fear of more domestic attacks that underpins this patriotism also points to the biggest weakness of the anti-war movement. Even if things go badly for Mr Bush, the pacifists' lack of any plausible answer to the challenge of terrorism will surely limit their effectiveness. With Vietnam, the left could argue that, if America withdrew, the war would be over. That is not true this time. The terrorists are likely to strike again regardless of whether America retaliates or not. Terrorism has escalated from the mid-1980s onwards, despite the fact that America's response has either been feeble, non-existent or symbolic. The true comparison is not with 1969, but with 1939.

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Colombia's conflicts

Enemies of the state, without and within

Oct 4th 2001 | BOGOTA
From The Economist print edition

Colombia's terrorists may lack global reach, but that makes them no easier to defeat—as a lurid murder and a damning human-rights report make clear

Get article background

AP

FOR the past three years, President Andres Pastrana's government has tried to put an end to Colombia's murderous civil conflicts with a two-track strategy. On the one hand, Mr Pastrana has opened peace talks with the FARC guerrillas. To do so, he has withdrawn the security forces from a large swathe of mountainous jungle in the south, creating a "demilitarised" zone. On the other hand, the government has sought international support to strengthen the armed forces, making efforts to improve their behaviour. On both counts, Mr Pastrana was this week dealt setbacks.

On September 29th, the body of Consuelo Araujo, formerly Mr Pastrana's culture minister, was found in the foothills of the Sierra Nevada de Santa Marta, six days after she had been kidnapped by the FARC's Caribbean front. Her captors appear to have shot her several times at close range, as they fled from army troops. The wife of a senior government law officer, Mrs Araujo was the founder of the country's most important folklore festival. She was a well-known personality, as well as being a close friend of many people prominent in politics and the arts. Colombians have been outraged by her murder. Thousands turned out for her funeral.

On the same day, the FARC used mines and troops to stop Horacio Serpa, the Liberal who the polls say is the front-runner to become president next year, from leading a march of some 4,000 supporters into the supposedly demilitarised zone (known to Colombians as the *despeje*). That made a mockery of the government's claim that civil and political rights still applied in the FARC-controlled zone.

Most Colombians have lost patience with peace talks that have produced no significant agreements, while the FARC, with around 18,000 fighters, continues its military campaign across the country. Even so, Mr Pastrana had been expected to announce this week the renewal of the *despeje* until the end of his mandate. A small committee set up by the president and Manuel Marulanda, the FARC's leader, last week proposed a six-month ceasefire during which the two sides would discuss reforms to be put to a constituent assembly, and the guerrillas would be paid to stop kidnapping. But now Mr Pastrana faces pressure to scrap the enclave, and also therefore the talks, unless the FARC agrees to an unconditional ceasefire.

The United States, which last year granted $1.3 billion in mainly military aid to Colombia, has hitherto given unenthusiastic backing to the talks. After the September 11th attacks, some Colombians expect a tougher line. The FARC, together with the smaller ELN guerrilla group, is on the United States' official list of "foreign terrorist organisations". But so, too, since last month, are the right-wing paramilitaries of the United Self-Defence Forces of Colombia (AUC). They are responsible for more civilian deaths than the guerrillas, many of them in massacres aimed at clearing alleged guerrilla sympathisers from rural areas. On October 2nd, paramilitary gunmen murdered a Liberal congressman.

In a report this week, Human Rights Watch, a New York-based group, details the close links that continue to exist between the armed forces and the AUC. Such accusations are not new; neither is the official rejoinder that they are the actions of rogue individuals. But the report gives damning support to the claims of critics that the paramilitaries operate as an unofficial extra division of Colombia's army, and will thus embarrass the government.

Human Rights Watch investigated allegations against three army brigades (out of 17 in total), each based in areas where the AUC is on the offensive, as well as several police detachments. It found evidence that these units “promote, work with, support, profit from and tolerate paramilitary groups, treating them as a force allied to and compatible with their own”.

One of the units is the 24th Brigade, based in Putumayo department, where separate American-trained battalions are supporting a coca-eradication campaign. According to evidence cited in the report, the soldiers and paramilitaries operated jointly. The brigade's officers gave transport and the use of barracks dormitories to the local AUC, and shared intelligence with it as well as with American-trained troops. An accountant who worked for the AUC told Human Rights Watch that the group had an annual budget of $8m in Putumayo, most derived from taxing the cocaine business. She said the AUC made payments of up to $3,000 a month to police and army officers (as senior as colonels) in return for their collaboration.

Under Mr Pastrana, the army's top commanders have taken some steps against the AUC, arresting some of its members. Some officers accused of links with the paramilitaries have been sacked and, in one case, sentenced to imprisonment. But such efforts have been ineffective in breaking the links, says the report. Neither have they halted the AUC's rapid growth.

One of Mr Pastrana's achievements has been to involve outsiders in trying to settle Colombia's conflicts. But despite his courageous efforts, the peace process now inspires almost as little confidence abroad as it does at home. And none of the Colombian groups has been mentioned by American officials as being among the terrorist organisations “with global reach” that have become the prime target of the United States since September 11th. Unless the government takes more resolute steps to curb the paramilitaries as well as the guerrillas, the United States' Congress may yet decide that American money is better spent elsewhere.

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Corruption in Brazil

Heavyweights humbled

Oct 4th 2001 | SAO PAULO
From The Economist print edition

A slow but steady clean-up continues

UNTIL recently, corruption allegations were easily brushed aside by Brazilian politicians, who could rely on their colleagues' solidarity. But things are changing. The latest casualty is Jader Barbalho, until recently president both of the Senate and of its largest party, the catch-all Brazilian Democratic Movement (PMDB). This week he announced his resignation from the Senate, after it had started proceedings to expel him for alleged embezzlement in the 1980s.

Last year one of Mr Barbalho's PMDB colleagues became the only senator in Brazilian history to be chucked out for corruption. This means being barred from office for eight years, and so losing the immunity from prosecution that goes with it. By resigning, Mr Barbalho hopes to return in next year's elections. The same tactic was used earlier this year by Antonio Carlos Magalhaes, Mr Barbalho's predecessor as Senate president and his bitter rival. He resigned after breaking the Senate's rules in his quest for dirt on his foe.

Another right-wing heavyweight is in trouble in Sao Paulo. Paulo Maluf, twice the city's mayor, is being prosecuted for alleged fraud over a 2 billion *reais* ($740m) road tunnel. Prosecutors said on September 30th that they had received confirmation from the authorities in Jersey, a British dependency, that Mr Maluf and his family had investments worth around $200m in a bank there. Mr Maluf had denied having any such foreign investments. Like Mr Barbalho, he also denies swindling taxpayers.

The immunity given to office-holders, and the inefficiency of Brazilian justice thereafter, mean that such accusations can remain unproven for years. Judicial reforms are stuck in Congress (though it did recently approve a new civil-law code, after 26 years of debate), as are schemes to limit parliamentary immunity. Until they are approved, it would be premature to conclude that political corruption in Brazil has had its day.

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Mexico and the United States

A government damaged

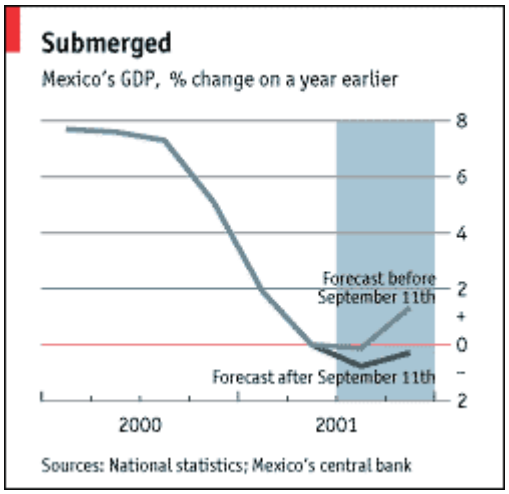
Oct 4th 2001 | MEXICO CITY
From The Economist print edition

Mending fences at home and abroad

THE row over how much Mexico should back the United States' war against terrorism is subsiding, but the damage it has caused to President Vicente Fox's government may take longer to heal. When, shortly after the September 11th attacks, Jorge Castañeda, the foreign minister, said Mexico could not "negotiate its support" for the United States, its trade partner in NAFTA, nationalist opposition politicians rushed to condemn him. The efforts of Santiago Creel, the interior minister, to mollify them—fearing that they would oppose government bills more stubbornly—made the government look more divided than it really was. A fortnight passed before Mr Fox settled matters by publicly and firmly backing his foreign minister, in an interview on American television. On October 3rd, Mr Fox was due to meet George Bush in Washington to offer condolences and discuss border security.

To be fair, Mr Fox had reassured Mr Bush of Mexico's solidarity early on. Mexico's political establishment is now singing the same tune: full support, short of sending troops (which are not wanted anyway). But the episode has raised tensions between Mr Creel and Mr Castañeda, who both have presidential ambitions. It showed bad judgment by Mr Fox. And it casts doubt on the government's ability to get the opposition-dominated Congress to give its support to a tax reform seen as essential to shore up the public finances and fulfil the president's promises to improve social welfare. Critics within the government are already sniping at the finance ministry for fumbling the lobbying effort, and for not rallying businessmen to press state governors from the Institutional Revolutionary Party (PRI), the largest opposition force. The outcome, they fear, may be a weaker tax reform, or none at all.

That would be especially unfortunate right now. Even before the terrorist attacks, America's slowdown had thrown Mexico's economy into recession. Now, recovery will be put back until next year, according to the central bank's monthly survey of 30 independent economic consultancies (see chart). Some industries are already suffering badly. Tourism is one: Americans make up 85% of the visitors to Mexico, but are suddenly more reluctant to travel. Exports have been hit by the delays at border crossings for security checks. According to the Mexican foreign-trade council, bilateral trade, formerly running at $670m a day, has dropped by an average of 15% since September 11th. Most affected are electronics, textiles, chemicals and, especially, Mexican plants supplying just-in-time parts to American car makers.



The government cannot do much to help. It is sticking to its tight fiscal policy. It plans minor measures to attract more foreign investment and promote tourism. It will bring forward job-creating housing and road programmes due in next year's budget to the start of the year. And, says Eduardo Sojo, Mr Fox's economic-policy co-ordinator, it will work harder than ever to get the tax reform passed. But whether it will do that by leaning on the opposition harder, or by giving it even more concessions, is not clear.

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Canadian politics

Quebec thinks continentally

Oct 4th 2001 | MONTREAL
From The Economist print edition

Support for secession cools

WHEN Bernard Landry became premier of Quebec last winter, he promised to make secession from Canada his government's priority. Lucien Bouchard, his popular predecessor as leader of the Parti Québécois (PQ), had displayed only fickle dedication to the cause. Mr Landry, unable to match Mr Bouchard for charisma, vowed to be at least more constant.

This week, however, the premier has admitted that secession is again on the back burner, displaced by everyday concerns, such as a foundering economy. What has changed? In by-elections on October 1st, the voters gave Mr Landry a slap in the face. He had hoped for “a perfect score”, since all four seats at stake were in French-speaking, largely rural areas of the province. They were PQ strongholds, routinely won by double-digit margins. So it was all the more surprising that the opposition Liberals won two of the seats with solid majorities, while a third went to a recount. The PQ held the fourth seat.

By-elections in parliamentary democracies are a traditional means for voters to express dissatisfaction with the government without ejecting it. The PQ lost 26 consecutive by-elections while remaining in office between 1976 and 1985. And now, as then, the voters have plenty of local grievances, ranging from the forced merging of municipalities and a badly administered provincial day-care scheme to chronic health-care woes.

Mr Landry said that the by-election results alone would not cause his government to drop its commitment to “sovereignty” (secession). But he admitted that there were forces undermining the cause. It is only a slight exaggeration to say that the Quebec separatist movement was among the political victims of last month's terrorist attacks in the United States. Support for secession usually floats between 40% and 45%, rising and falling with the economy as well as the state of Quebec's relations with the rest of Canada. And since September 11th, the economic news has all been bad. In the week preceding the elections, Montreal firms announced 15,000 lay-offs. Many of these were in the aircraft industry, one of the pillars of the province's economy.

But the impact of the attacks on the collective psyche may have greater repercussions for the sovereignty movement than the economic fall-out. Continentalism, the term Canadians use for closer relations with the United States, is enjoying something of a renaissance thoughout the country, in the form of calls for “a perimeter wall” around North America and joint immigration, customs and defence policies. That runs counter to the emotional impulse for secession. Less tangibly, the attacks may have made voters cling to the familiar from fear of the unknown.

Whatever the reason, the by-elections have upset Mr Landry's plans. He was expected to hold a provincial election this year, as a prelude to another referendum on secession. Now he is likely to hang on until the end of his term, in late 2003.

For Jean Charest, the Liberal leader, the wait will be frustrating. When he left the federal Conservatives in 1998 to jump into provincial politics, he expected to become premier quickly. Yet in the election that year, the Liberals won more votes than the PQ but fewer seats in the legislature.

Since then, Mr Charest has laboured to gain support among French-speakers in rural areas. The by-elections were the first sign of his success. The victories were especially sweet for Mr Charest because the government had showered the electorate with promises of spending. His patience may yet pay off.

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Politics in Trinidad

Gas and graft

Oct 4th 2001 | PORT OF SPAIN
From The Economist print edition

The government has imploded

AP

Panday's days look numbered

OUTSIDE Freeport Presbyterian School, as a full moon lit Trinidad's sugar belt, Basdeo Panday, the prime minister, was rousing his supporters on the evening of October 2nd. “This country is more united than it has ever been,” he told them. But not far away, at a rival rally on the same night, three of Mr Panday's ministers were denouncing what they claimed was his government's corruption.

One of the dissidents, Ramesh Maharaj, had been sacked as attorney-general by Mr Panday on October 1st; the other two resigned in protest. The row means that Trinidad and Tobago, an important oil and gas producer with 1.3m people, has been plunged into political uncertainty.

The dissidents are in a strong position. Having won a narrow victory in a general election last December, Mr Panday now has only 16 firm supporters among the parliament's 36 members. Mr Maharaj is the deputy leader of the ruling United National Congress (UNC), and his supporters control the party's executive.

What now? Mr Panday could struggle on, with a minority. But the opposition is trying to link up with the UNC dissidents to form a new government. To prevent that, Mr Panday may want to dissolve parliament and call a fresh election. But the opposition insists that a new electoral register should be drawn up first, since the existing one is riddled with errors.

Arthur Robinson, Trinidad's president and no fan of Mr Panday's, may try to stymie any dissolution. Even if an election were called, the opposition might mount a challenge in the courts. That would mean prolonged deadlock. The courts are still chewing over claims of irregularities from December's bad-tempered election. The opposition claims that two government MPs were illegally nominated.

Critics accuse the government of a host of irregularities, including undervaluing a share in the state rum company which was to be sold to a local conglomerate. Last month, Mr Maharaj sent files on alleged malpractice at three state enterprises and an insurance company to the director of public prosecutions. But Mr Panday denies any wrongdoing; he says the dissidents' “constant bickering” is holding the country back.

Trinidad is enjoying a natural-gas boom, with $4 billion invested over the past four years. Energy companies, accustomed to far rougher places, may not be too worried by the political wrangling. Rather, the country's challenge is to use its gas wealth wisely. Though it provides few direct jobs, the energy industry enriches the state. Yet in health and education Trinidad struggles to meet standards reached a generation ago by neighbouring Barbados. For years, demands for the investigation of corruption have been ignored.

There are now worrying hints of more serious trouble. Mr Maharaj says his life has been threatened. On October 1st, Mr Panday's supporters gathered in an angry crowd outside the UNC's headquarters, just before a national executive meeting. Perhaps wisely, Mr Maharaj stayed away. “He didn't want to be lynched by this crowd,” said John Humphrey, the planning minister. A quip too far, perhaps.

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Afghan refugees

Terrified and hungry

Oct 4th 2001
From The Economist print edition

United Nations agencies are getting ready to deal with what they fear will be a humanitarian catastrophe

AP

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IN CHAMAN, close to the border with Pakistan, 20,000 Afghans are waiting in a field, hoping to make it to the other side. They sit in the sun, with little food and water, some of them having walked for weeks. Two women, allowed into Pakistan to give birth, are sent back as soon as they have done so. Some Afghans move on from Chaman, seeking easier paths to Pakistan. Some simply abandon any hope of fleeing Afghanistan.

The tragedy of the terrorist attacks of September 11th has spread from the United States to Afghanistan. Whereas thousands lost their lives in New York and Washington, millions of Afghans are now facing a choice between exile and starvation. Fearing military retaliation by the Americans, many have headed for the supposedly safe rural areas, or the borders.

All of Afghanistan's neighbours have closed their borders, but about 50,000 people—most of them women and children—are thought to have made it into Pakistan during the past three weeks, joining the 5m Afghans who have fled their country over the past 23 years of war. The newcomers try to blend in. Some are welcomed by relations who arrived earlier. Some sneak into established camps.

If America's retaliation against the Taliban spreads the civil war in Afghanistan, as many fear, the office of the United Nations High Commissioner for Refugees (UNHCR) believes that as many as 1.5m more people may flee Afghanistan, most of them heading for Pakistan and Iran, which together already play host to 3.5m Afghan refugees. Remembering its unpreparedness for the chaotic exodus of refugees from Kosovo, the agency is preparing for the worst. Tons of supplies, from plastic sheeting and tents to quilts and buckets, are being flown to Quetta and Peshawar in Pakistan and Mashad in Iran.

The agency is seeking sites for new camps, while trying to persuade Afghanistan's neighbours to open their borders. As things stand, they are reluctant to do so. There are already over 200 refugee settlements in Pakistan, some of which were set up as long as 20 years ago. Iran has far fewer camps, as most Afghans are integrated within the local population, but still shelters 1.5m refugees. The Iranian authorities are trying to organise relief efforts in Afghanistan itself, hoping to encourage Afghans to stay there.

In the meantime, many people in Afghanistan are reported to be starving. Even before September 11th, years of fighting and severe drought had translated into 1m internally displaced people and shrinking food supplies. In the hardest-hit areas, families are said to be surviving on locusts and grass. The World Food Programme (WFP) believes that 6m people are already in need of food inside the country. The agency has enough supplies for only about 4m of them, and those are likely to run out in the next three

weeks.

Bringing food to where it is needed is hugely difficult. At present the WFP is getting food to only about 1m people inside Afghanistan. From Pakistan and Iran the food goes in by road, but there are not enough lorries in Afghanistan to cover the stretch to many of the places where it is needed. Mountains cover much of the country, and some areas are hard to reach, even by donkey. By mid-November, the central and northern regions will be covered with snow, making road transport even more difficult. A military strike is almost certain to make deliveries harder. The agency is contemplating dropping food by air.

The Taliban are contributing to the problems of distribution. The Afghan authorities are preventing local UN staff—all foreign staff having left the country—from communicating with the outside world through radio or e-mail. The UNHCR has lost contact with its 167 people in Afghanistan, and the WFP has to work through unreliable telephone landlines to plan its operations. Last week, the Taliban denied the food agency access to the supplies in its own warehouses, although that blockade has now been lifted.

Whereas the United States is getting ready to spend hundreds of millions of dollars on its expected military strike in Afghanistan, the UN says it will need $584m over the next six months to help Afghans. A large chunk—$268m, of which $30m is needed urgently—is meant for the UNHCR. The WFP is mounting the largest appeal in its history. Italy has pledged $7m to help refugees, and Britain and the United States have promised about $4m each—though America is paying much more directly to Pakistan—and Germany says it will give $3.5m. The European Union is coming up with $1.8m. So far, the WFP has received only $17m but expects other countries to open their wallets too. With recession looming and cruise missiles costing $1m apiece, however, Afghans face severe competition for limited resources.

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Pakistan and the Taliban

About turn

Oct 4th 2001 | LAHORE
From The Economist print edition

General Musharraf is doing a good job of realigning his country with America

EPA

Not all fundamentalists

MOST Pakistanis do not much like America, seeing it as an ally in the 1980s that walked away in the 1990s once Russia had been driven from Afghanistan. True, they do not like the Taliban either, viewing them as extremists who give Islam a bad name. Overtly or otherwise, though, Osama bin Laden is a bit of a hero for standing up to America. Until recently, if asked to choose between America and the Taliban who are sheltering him, most Pakistanis would have come out in favour of the Taliban. Now they are not so sure.

Pakistan's president, General Pervez Musharraf, has declared that this is a “critical point in Pakistani history” when it is necessary to stand with America's alliance. Speaking the language that goes down best, he has argued that, if Pakistan does otherwise, India, the arch-enemy, would exploit the situation to isolate and hurt its neighbour. America would turn the screws on Pakistan, causing its weak economy to collapse. Siding with the United States, on the other hand, could bring huge economic and military benefits.

George Bush proved the point last month, waiving three sets of sanctions that had burdened Pakistan since 1990. Outstanding American debt of about $400m was swiftly rescheduled; nearly $150m in American humanitarian assistance for the influx of Afghan refugees was announced; the IMF is considering measures worth $2.5 billion and economic growth in Pakistan, with America now talking about an immediate injection of $600m of aid. On the back of all this good news, the rupee has been rising sharply.

General Musharraf admits that the religious right is poised to protest violently. The power of such groups was demonstrated this week, as one of them exploded a bomb in Srinagar, in Indian Kashmir, killing 38 people. But he is confident that the problem can be “managed” if American intervention is short and well-aimed, rather than long and indiscriminate. He says there are no fissures in the army and he has no plans to postpone the promised return to democracy in October 2002.

So far he has been proved right. The angry demonstrations by the religious parties across the country have not attracted lay Pakistanis, and the army's commanders are known to agree with General Musharraf's analysis. Mainstream political parties, newspaper editors and intellectuals, despite their aversion to any military regime, have thrown their weight behind him. And a large number of Pakistanis came out on September 27th for a national day of “solidarity” with the government.

“The Taliban's days are numbered,” declares General Musharraf. Pakistan's Afghan policy is being “reviewed” and intelligence will be shared with the Americans. Significantly, too, Pakistan's rulers have come round to the idea that a broad-based coalition government in Afghanistan led by the exiled former king, Muhammad Zahir Shah, could be an option. This is an about-turn, after the years of unstinting Pakistani support for the Taliban since it helped create the movement in 1995. Will the new line endure? Will the general's entire strategy endure? Until bombs start to fall, and the reaction on the streets of Pakistan can be seen, neither will have been really tested.

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Bangladesh's election

A vote for change

Oct 4th 2001 | DHAKA
From The Economist print edition

Big defeat for the ruling party

Get article background

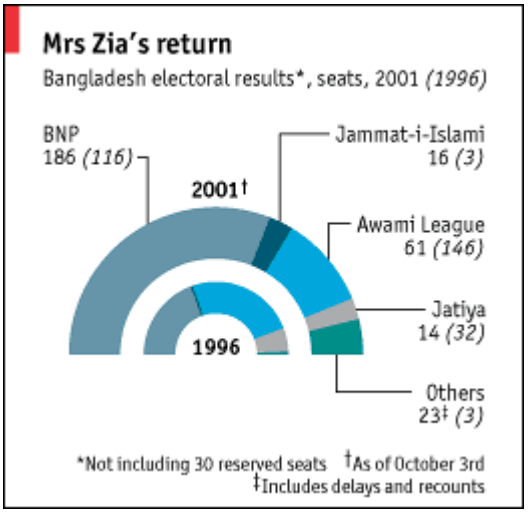
ONCE the euphoria of the stunning election victory of the Bangladesh Nationalist Party (BNP) of Khaleda Zia has died down, she will no doubt be receiving an invitation from the American embassy in Dhaka for a cup of tea and a cucumber sandwich. Her four-party alliance, which has a two-thirds majority in the new parliament, contains two hardline Islamic parties, a fact that has made the Americans sit up and take notice.

There had in fact been some American unease during the campaign when the Awami League, the party of the outgoing prime minister, Sheikh Hasina, claimed that there was little to distinguish the ideology of the Jamaat-i-Islami and the smaller Islami Oika Jote parties from that of the Taliban of Afghanistan. And during the campaign, photographs of Osama bin Laden were plastered alongside posters for the parliamentary candidates, suggesting that he had support in the country.

But it looks as if the United States can count on Bangladesh's continued support for its campaign against terrorism, as the BNP promised during the election campaign. The sheer scale of the BNP's victory on October 1st means that Mrs Zia is in a powerful enough position to take decisions without requiring the support of her controversial allies, even should they oppose supporting the United States. She can also count on tradition. Bangladesh is a moderate Islamic country, where Bengali culture is championed as much as the teachings of the Prophet. Though some staunch Islamists have come out in support of Mr bin Laden, they are very much in the minority and do so because they approve of his stand against western values rather than his tactics. The Jamaat-i-Islami, which won 16 seats, may have firm views about the role of women and be opposed to American-style hamburger bars in Dhaka's city centre, but it does not indulge in the same level of anti-western talk as its counterparts in Pakistan. It has for the most part forsaken extra-parliamentary activities in favour of working within Bangladesh's democracy.

But if a hardline Islamic threat is not something that will unduly perturb Mrs Zia—who is due to be sworn in later this month—there are plenty of other problems to occupy her attention. Foremost is the breakdown of law and order. Crime and political violence have escalated dramatically over the past five years in a country where democracy is by no means institutionalised. During the 1970s and 1980s, the army frequently tried its hand at government, usually without much success. Then there is corruption: a recent survey by Transparency International, a Berlin-based organisation, named Bangladesh as one of the worst offenders.

On top of that, around half the population is below the poverty line set by the United Nations, and a third of the workforce of around 75m is unemployed. Malnutrition, sanitation and personal income in the eighth-most-populous country in the world (130m) lag behind most of Asia. Mrs Zia with her powerful majority now has a golden opportunity to attend to these ills: she has inherited an economy that has grown by around 5.5% a year for the past five years, is self-sufficient in food and has vast yet mostly unexploited natural-gas reserves. Her bitter rival Sheikh Hasina has been humiliated, however, and is vowing to boycott parliament, claiming foul play. This could still trip Mrs Zia up.



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China's Communists

Business as unusual

Oct 4th 2001 | BEIJING
From The Economist print edition

China's business people are queuing up to become Communists

AP

Jiang spots dosh

WHILE the world's strategic map is being redrawn by the terrorist attacks in the United States, China's leadership is more preoccupied with politics at home. Last week, nearly 330 of China's most senior Communist Party officials held their biggest formal conclave in a year. Apart from observing that “the world is changing”, their 3,400-character communiqué had nothing to say about international events. It concentrated almost entirely on ways of shoring up the party's support.

The Central Committee's communiqué adroitly downplayed the convulsions the party is undergoing as it comes to terms with President Jiang Zemin's declaration on July 1st that the party of the proletariat should recruit capitalists in order to boost its “influence and cohesiveness”. This is by far the boldest ideological step taken by Mr Jiang in his 12 years as party chief. It could prove as important as Deng Xiaoping's declaration in 1978 that the country needed to “reform and open up”—the phrase that spelled the end of Maoism.

Mr Jiang received a pat on the back from the Central Committee. The communiqué said the meeting had “highly appraised” Mr Jiang's July 1st speech and considered it to be of “major and far-reaching significance”. But it avoided specific mention of recruiting private business people—“exploiters” as they had always been described until Mr Jiang's announcement. It also said nothing about promoting Mr Jiang's close ally, Zeng Qinghong, to full membership of the Politburo. This promotion has long been favoured by Mr Jiang but is widely opposed by colleagues who see him as nothing but a crony.

The political furore unleashed within the party by Mr Jiang's innovative thinking has done nothing to dampen the enthusiasm of private business people. For many this is a long-craved opportunity to improve their social standing and protect their business interests. The official press has reported a flood of applications from private entrepreneurs for party membership. A recent survey in Chengdu, the capital of Sichuan province, found that more than 70% wanted to sign up.

As a sop to furious conservatives, the leadership has urged party organisations to exercise restraint. But what party committee could resist recruiting as many rich entrepreneurs as possible? Party members earning over 1,500 yuan net (about $180) a month must pay 3% of their salaries to their party committee. That is more than the average income of officials and factory workers, and much more than that of peasants. Most would have to pay only 1% (or 0.5% for the very poorest) out of their paltry income. Private business people might make big donations in order to secure membership—a considerable incentive for a party with no assets to its name.

In the long run, Mr Jiang's decision could transform the party. Given that the private sector already contributes more than one-third of the country's GDP, it seems inevitable that private business people, once they have a foothold inside the party's walls, will gain a powerful political voice.

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The Philippines' ex-president

Enter Estrada, in slippers

Oct 4th 2001 | MANILA
From The Economist print edition

A culture of corruption, as well as an ex-president, is on trial in Manila

THE trial of Joseph Estrada, the deposed president of the Philippines, opened in disarray on October 1st, shaking the new government's hopes that the proceedings would show the rule of law to be alive and well. An hour after the trial was due to start, a protesting Mr Estrada arrived, under a police escort, from a hospital where he was being treated for minor ailments. His lawyers did not turn up at all, thus delaying the presentation of evidence and sowing legal landmines that could damage the prosecution's chances of securing a conviction against him.

The ex-president is accused of amassing some 4 billion pesos ($78m) in proceeds from an illegal gambling racket, misappropriated tax revenues and illicit investments. In extreme cases, Philippine law says the illegal acquisition of “excessive wealth” is punishable by death. Mr Estrada says he is innocent. But the accusations provoked a peaceful popular uprising in January that replaced him with his vice-president, Gloria Arroyo.

Mr Estrada's lawyers tried to have the trial, which is being held in a special anti-corruption court, postponed on various grounds, but the Supreme Court refused their plea. The ex-president and his lawyers then said they would boycott the trial. When he arrived, presumably having thought better of a boycott, he was wearing slippers, a sign, he indicated, of how unprepared he was to go on trial for his life, and declared that he was a victim of “judicial terrorism”. The court initiated contempt proceedings against Mr Estrada's absent lawyers and appointed others to take their place. Eventually, the first prosecution witness was called to give evidence.

The trial is expected to last for months. A guilty verdict would almost certainly be the subject of an appeal, which could take years. Justice can be slow in the Philippines. The last president accused of corruption, Ferdinand Marcos, died before he could be brought to trial. In the 15 years since Marcos was overthrown, his wife Imelda, alleged to be a co-conspirator, has remained free, and little has been recovered of the many millions of dollars that the couple are supposed to have stolen.

A failure to convict Mr Estrada might have political repercussions. There are already doubts about the constitutional justification for Mrs Arroyo's assumption of power. An acquittal would remove the moral justification for January's uprising as well. Mrs Arroyo is trying to reinvigorate an economy hobbled by a resurgence of Marcos-style crony capitalism under Mr Estrada. If he is not convicted, potential investors may have even less faith in the government's ability to end corruption.

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AIDS in Asia

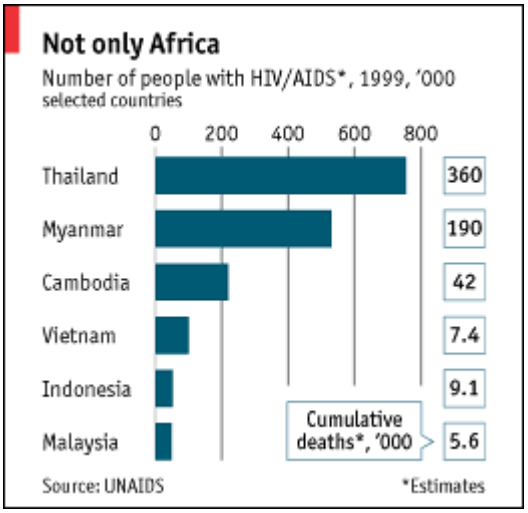
Sex bomb

Oct 4th 2001 | MELBOURNE
From The Economist print edition

The struggle against AIDS in Asia is far from over

HOW often do Asian women have sex, and with whom? This sort of question is too indelicate to be asked in public, but it will be hotly debated in the corridors at the sixth international congress on AIDS in Asia and the Pacific, due to open in Melbourne on October 5th. The reason is this: the Asian regional office of the World Health Organisation (WHO) is declaring HIV more or less under control in Asia. It says there is just not enough drug-taking and risky sex to sustain a major epidemic.

Everyone agrees that HIV is high and rising among those who inject drugs, but some find this relatively unimportant, maintaining that the epidemic is "self-contained" in this group. In the words of Malaysia's prime minister, Mahathir Mohamad, "HIV and drug use are problems that will solve one another."



Men who have sex with men are another obvious source of infection, but they do not even register on the radar screen for most Asian governments. So that leaves prostitutes and their clients as the only door through which HIV might enter the general population. And the wives of those clients hold the key to that door. If the wives are not having sex with anyone else, they may get infected themselves, but then the virus will hit a dead end. That, thinks the WHO, is the picture in Asia.

The good news is that survey data indicate that Asian women are indeed less likely to have extramarital sex than women in other continents. On almost every other count, however, the WHO's comfortable calculations fly in the face of the evidence, according to epidemiologists from many Asian countries.

In the first place, all the data suggest that people who inject drugs are having sex with people who don't, giving the lie to the idea that they form a closed group. Besides having wives and casual partners, drug injectors in Asia often visit prostitutes. For example, a quarter of the injectors surveyed in the Vietnamese capital of Hanoi also patronise prostitutes, and few of them use condoms. To make matters worse, prostitutes are injecting drugs. With prostitutes taking drugs and drug-takers having lots of sex, a "self-contained" epidemic among drug-takers is something of a dream.

Next, the ignored population of male homosexuals. Though few admit it, almost every country in Asia has a market in which men buy sex from other men. Transvestites sell sex to men who think of themselves as "straight". Male prostitutes sell sex to clients who prefer sex with men but may be married to conform to social norms. In a recent survey in Cambodia, 40% of men who had had anal sex with other men in the previous month had also had sex with women in that time. Again, not exactly a self-contained epidemic.

This, together with the fact that between 7% and 25% of men in Asian countries report buying sex from women, means that the region has the potential for a very large epidemic. For proof, look no farther than northern Thailand, where 10% of adults were infected before the government's HIV-prevention campaign drastically increased condom use and cut new infections. It is unlikely that these high levels of infection in the general population would be repeated across the continent, partly because prostitutes in other countries have far fewer clients than they do in Thailand. But an infection rate that might reach 2% seems plausible in many countries. That would imply 36m HIV infections in Asia, a fivefold increase on current estimated rates.

The optimists point out that risky behaviour has been recorded in Asia for years, and few countries have seen a major epidemic. Unfortunately, though, they are behind the times. At the last regional Asian AIDS conference two years ago, only Thailand, Cambodia and India had any epidemics to speak of. At this week's meeting China, Indonesia, Nepal and Vietnam—home to over 1.5 billion people—will all report huge rises in infection in groups with high-risk behaviour.

The prevalence of HIV infection now ranges from 40% to 70% of those who inject drugs in all of those countries, even though in some of them, such as Indonesia, it was said to be zero at the time of the last AIDS conference. HIV is increasing among prostitutes in that country too, rising from virtually nothing to 8-25% in several places since the last regional pow-wow. Vietnam and China are showing the same abrupt rise in rates of infection in prostitutes. Bangladesh and the Philippines are recording much the same patterns of risky behaviour as the worst-affected countries. Unless the successful prevention models of Thailand and Cambodia are quickly replicated throughout the continent, Asia could yet face a ghastly AIDS epidemic.

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Sudan

Coming out of the cold

Oct 4th 2001 | KHARTOUM
From The Economist print edition

Sudan is co-operating with America in the war on terrorism, but its other problems remain unresolved

AP

AN AIR of unreality surrounded the opening of Sudan's National Assembly on October 1st. Last month, according to an agency report, the government had arrested about 30 people suspected of being Osama bin Laden associates. Although President Omar Bashir did not confirm this report, and his ministers denied it, a five-year United Nations travel ban was lifted on September 28th, apparently in reward. Signs, most of them still wobbly, suggest that Sudan could be completing its slow emergence from its dark corner of extremism and isolation.

Indeed, the government started co-operating with America over terrorism more than a year ago. At first, it denied any knowledge of the myriad Islamist groups based in the country in the first half of the 1990s. Mr bin Laden, one beneficiary of Sudan's open-door policy towards brother Muslims, was engaged only in construction, it insisted. Then the government, which remains on America's list of terrorist sponsors, began to comply. By the time of the September 11th attacks on America, more files were changing hands than the CIA could readily process.

With half a dozen security services represented in the cabinet, respect for human rights does not yet figure in a changing Sudan. The flogging of Christian protesters last Easter, after a tear-gas attack on Khartoum cathedral, suggests, at the least, that the government still has to work on its public relations. But churches are no longer being bulldozed with impunity; opposition politicians have returned from exile; and reports critical of the government are starting to make it past the press censors. Draconian detention laws were introduced early this year, but they have not generally been exercised.

They have, however, proved useful in detaining Hassan Turabi, the Islamic regime's former mastermind. In his address to parliament, Mr Bashir announced the release of a group of political prisoners, but it rapidly became apparent that Mr Turabi would not be among them. Mr Turabi, who was parliamentary speaker, was manoeuvred out of government last year, and then detained under house arrest in February, after signing an agreement with the rebel Sudanese People's Liberation Army (SPLA), based in the south.

Sooner or later, Mr Bashir must either put him on trial or release him. But there are problems. If tried, Mr Turabi could be tempted to spill the beans on past goings-on, including, perhaps, official involvement in the attempted assassination of Hosni Mubarak, Egypt's president, which brought on the UN's sanctions. On the other hand, if he were free, he could mobilise hardline support against the government. He might even use Khartoum's mosques as a rallying-point for Mr bin Laden, in whom the faithful have so far shown a striking lack of interest.

Most Sudanese are far more concerned with ending their own devastating north-south civil war, now in its 19th year. The government is theoretically offering the south the right to secede, a right enshrined in the country's three-year-old constitution, but in fact is fighting to prevent it doing so. The SPLA, for its part, is ostensibly fighting for a free, united Sudan, but it would doubtless vote for secession if given the chance. Under a regional peace initiative, two meetings between government and rebels were scheduled in Nairobi in September. The SPLA failed to show up on the 4th; the government on the 24th.

Before any new peace initiative, Mr Bashir will have to get Ali Osman Mohamed Taha on side. Mr Taha,

the first deputy prime minister, was partly responsible for ousting Mr Turabi, his erstwhile mentor, and has succeeded him as chief ideologue. He favours a Libyan-Egyptian peace plan, which overrides the south's right to secede, without putting the Islamic state, the focal point for the mainly Christian south's discontent, up for negotiation.

The rebels control, and try to administer, 80% of the south. The government is slowly persuading its neighbours to stop supporting them, and has new oil riches to help it equip its army. But it is still taking a beating. Part of the problem is that the Islamisation of the army, instead of providing divine inspiration as Mr Turabi intended, has overburdened it with useless officers. Its miserable conscripts struggle to believe in the holy war, which Mr Turabi decreed and then revoked, when they find the entire southern population against them.

The SPLA fears that the government is biding its time until its oil money—it earned over $1 billion last year, the first full year of production—makes it a more formidable fighting force. The rebels have therefore dispatched their artillery—all of it captured from government units—to the oil wells in the centre of the country.

Though the government talks of peace, it is making no real efforts to negotiate with the southerners, or to spend oil revenues on the sort of development that might persuade them to stay within Sudan. This is what President George Bush's special envoy, Jack Danforth, a former senator who was appointed on September 6th, will argue when he makes his inaugural visit in November. Sudan's prospects of shaking off America's own trade sanctions, far more serious than the UN's ones, will partly depend on its response.

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Egypt and America

Sulkily in line

Oct 4th 2001 | CAIRO
From The Economist print edition

Egypt will support the American-led coalition, but not happily

WHEN Iraq invaded Kuwait in 1990, Egypt gave prompt and full support to an American-led alliance, decisively tipping the Arab world against Saddam Hussein. Now, asked again to back American aims, the answer is hesitant, tempered both by deepened suspicion of America and mounting frustration at home.

In all likelihood Egypt will again come through for its ally. Hosni Mubarak's government is not about to let down a superpower that provides $2 billion a year in military and economic aid. The governments of the two countries have strong mutual interests, not least the desire to crush the terrorist groups that have bruised both of them. Co-operation in defence and intelligence is discreet but broad. Their two-yearly Bright Star war games, due to go ahead next week in Egypt's Western Desert, are the largest joint training exercise in the world.

But this week saw a different kind of manoeuvre in several Egyptian universities. While hundreds of student demonstrators shouted anti-American slogans inside their campuses, riot troops lined up outside. There were few direct clashes. Yet the protests did reflect Egyptians' intense anxiety at being implicated in an American-led assault on fellow-Muslims.

The anxiety embraces Egyptians across the political spectrum. The worry has one basic cause. If only America would make Israel withdraw from the occupied territories, declared the suave presenter of Cairo's most-watched television talk show, then he personally would join the marines to fight in Afghanistan. This week's belated move by the Bush administration to encourage Palestinian-Israeli peace talks will take some of the edge off the passion. But the accumulation of bitterness suggests that a lot more persuasion is still needed to bring the public round.

The bitterness, and the common denial that Arabs could be responsible for the September 11th attacks, come partly from Egypt's identity problems. The strain of the government's epic balancing act—its three-decade-long failure to choose between Arabism and globalism, secularism and Islamism, capitalism and socialism—has been exacerbated by its poor economic and political performance.

Given rising unemployment, growing labour unrest and the desperation of the business class, the government has resorted to two things it does well: heavy-handed policing and fancy-footed diplomacy. With recent crackdowns on everything from homosexuals to groups supporting the *intifada*, Egypt's Ministry of the Interior has signalled that it is not in the mood to tolerate dissent.

The diplomacy has been subtler. Mr Mubarak's sagging popularity soared when he brushed off America's first overtures to join an anti-terror coalition. In disengaging from that first demurral, Mr Mubarak has steered a skilful course, inching closer to America even as he sought wider Arab and Islamic cover. A rare visit to Cairo by the foreign minister of Iran, Kamal Kharazi, has hinted at a healing of rifts between these two regional heavyweights. And an emergency meeting of Muslim foreign ministers next week is likely to provide an Islamic gloss to doing America's bidding.

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Israel and the Palestinians

Smashing the ceasefire

Oct 4th 2001 | JERUSALEM
From The Economist print edition

The bloody events of the past week leave little hope of the truce surviving

AP

Hamas, unrepentant

HAMAS gunmen may have put paid to the frail, much-broken ceasefire urged on the Israelis and Palestinians by the Americans, and agreed on by Yasser Arafat and Shimon Peres when they met on September 26th. During the night of October 2nd, Hamas guerrillas broke into Alei Sinai, a tiny Jewish settlement on the Gaza strip's northern border with Israel, and killed two young Israelis. After a siege that lasted six hours, the Israeli army shot the two infiltrators dead.

At a late-night meeting, convened as the battle continued, Israel's security cabinet gave the army a “free hand” to defend its citizens. It also announced it was putting on hold any relaxation of the blockades imposed on the occupied territories. On October 3rd, army bulldozers and tanks razed Palestinian farmland round Alei Sinai. Six Palestinians were killed as police positions in Gaza city were shelled, and a strip of Palestinian Authority territory was captured and held.

Ariel Sharon held Mr Arafat responsible for the attack. A worried Mr Arafat denounced the raid as an “aggression” against his ceasefire orders, and vowed to punish the perpetrators. But most Palestinians saw it as an inevitable coda to a ceasefire that had already left 19 of their people dead. Less than a day after the Arafat-Peres meeting, Israeli tanks and bulldozers entered Rafah on the southern tip of Gaza and destroyed six houses. Four Palestinians were killed. The army said it had levelled the buildings because they were being used by gunmen to fire on its bases. The Palestinians said the incursion was to give soldiers a freer hand to deal with the *intifada* anniversary demonstrations planned for September 28th.

As Palestinians marched and demonstrated in support of their revolt, Israeli soldiers shot at them in Gaza, Hebron and Bethlehem. Two Palestinians, driving in taxis in the West Bank, were killed after removing roadblocks on their way to work. The army said they had been mistaken for guerrillas. It says it has to act to defend its people against mortars in Gaza, ambushes in the West Bank and bombs in Israel—one ripped apart a car in West Jerusalem on October 1st—because Mr Arafat refuses to act against groups such as Islamic Jihad, which claimed the bombing, and Hamas.

The turmoil in the occupied territories is partly because Mr Arafat, for much of the past year, has let the *intifada* drift, assuming whatever violent forms it might. His “policy” was never publicly stated, but its clear message was that he would no longer act as Israel's protector unless Israel honoured agreements it had signed, and ended the repression of his people. One consequence of this stance was that the more Mr Arafat relinquished control, the more his authority diminished and the more power devolved to the militias, many of whose fighters are or were officers in the Palestinian Authority's forces.

Now that Mr Arafat wants to enforce a ceasefire in exchange for America's new engagement, he can no longer do so. The genie of the Palestinian “revolution” has escaped its vessel. Insubordination is seen in the defiance of Mr Arafat's decrees—the Jerusalem bomb and the assault on the Gaza settlement—and also in more direct ways. During the Israeli army's incursion into Rafah, Palestinians attacked three police stations in the town. They had heard rumours that Mr Arafat was about to send 400 of his officers to quell the fighting.

Faced with such dissent, the Palestinian leader can do one of two things, both with bad results for him. He can go after Hamas, Islamic Jihad and dissidents from his Fatah movement, and thus risk a

confrontation not only with them, but also with large sections of Palestinian public opinion. Or he can again abdicate responsibility, aware that many members of the Israeli government and army would see this as an invitation to destroy his authority once and for all. The only way out of this impasse, many Palestinians believe, is for outsiders, above all the Americans, to intervene, saving both Israelis and Palestinians from themselves.

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Rwanda's genocide

Search for speed and reconciliation

Oct 4th 2001 | KIGALI
From The Economist print edition

Rwanda resorts to a traditional system to try those accused of genocide

AP

House-building, as prisoners wait, and wait, for their trial

PEOPLE from all walks of life, from university professors to illiterate peasants, were this week choosing the 260,000 citizens who will preside as judges over the trials of Rwandans accused of taking part in the 1994 genocide. One of the genocide's grim legacies is a prison population of some 115,000 suspects, most of whom have been detained in foul conditions since 1994. Another was the almost complete extermination of Rwanda's judiciary, most of whom were Tutsi, the main victims of the genocide. To speed things up, the Rwandan government has already held some mass trials. But even more radical measures are needed if suspects are not to die in jail before their cases are heard.

Thus it is turning to *gacaca*. *Gacaca* means “justice on the grass”, the grass being the place where locals used traditionally to get together to solve problems between families. The judges were the heads of the households concerned. As the system developed, the judges, often local elders, settled disputes between people living on a particular hillside—which is the basic social unit in Rwanda.

As the selection process began on October 4th, there were no candidates as such, but villagers pointed out individuals of high moral standing in their group. If no one disagrees with their choice, the man, or sometimes woman, becomes a judge. Disputed cases will be submitted to an election. The new judges will be given several months' training and the *gacaca* courts are expected to start working in the second half of next year. Suspects will be brought before the villages where they are said to have committed their crimes; local people will give their evidence; and the judges, in panels of 19, will deliver their verdicts and, within certain limits, their sentences.

The government hopes that introducing this traditional form of trial will not only speed up justice but also promote national reconciliation. It places great emphasis on the importance of confession. Suspects who confess freely before a given date will receive commuted sentences. Those accused of organising the genocide or of showing particular zeal or sadism during the slaughter, known as Category-1 suspects, will not be eligible for trial in *gacaca* courts. They will be handled by the usual courts, staffed by legal professionals.

In terms of cost and legal expertise, the *gacaca* tribunals are the antithesis of the UN's International Tribunal for Rwanda. They will also, the government hopes, be much more efficient. The tribunal, based in the Tanzanian town of Arusha, has proceeded painfully slowly. In the seven years since its creation, it has condemned only eight people for their role in organising the slaughter. A ninth suspect was acquitted, in circumstances that provoked a public outcry in Rwanda. The tribunal has also been dogged by scandals, including the discovery that genocide suspects themselves were on the tribunal's payroll as defence-team investigators.

One trained judge, who survived the genocide but lost 150 relations, including his wife and infant daughter, says that his only reservation about the *gacaca* system is that he sees no guarantee that people involved in the genocide will not be selected as judges. The principle of obeying authority is ingrained among Rwandans, and is one of the reasons why villagers blindly followed instructions to butcher their neighbours and even spouses. Human-rights groups point to the risk of villagers being bribed or threatened to give false evidence. But most Rwandans seem to think that even if *gacaca* has its imperfections, it is the only possible solution to their country's fundamental problem.

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Italy's government

Bad luck and clumsy driving—on a rocky road

Oct 4th 2001 | ROME
From The Economist print edition

Silvio Berlusconi's first three months in office have been by no means happy

Get article background

ITALY's prime minister has had a bumpy start. In July, only weeks after Silvio Berlusconi's government took office, rioters in Genoa ruined the G8 summit, the first big international meeting under his aegis. The police overreacted and a row over who was responsible still festers. The world's economic slowdown has not helped Mr Berlusconi either. Citing that, and the size of the public deficit left behind by the outgoing centre-left government (the subject of another row), he has revised or dropped several of his more ambitious plans for pepping up Italy's economy. The events of September 11th will make matters worse. His anti-Muslim remarks made other western leaders squirm as they tried to build a coalition against terror. Lastly, nagging questions about his own probity and his conflicts of interest are still dogging him. Yet many Italians remain unconcerned, and the prime minister remains popular.

At first the government looked determined to keep the bold promises it had made before the election, and ministers have indeed floated plans to tackle education, the health service and illegal immigration. But the slowing economy has made Mr Berlusconi nervous, and he has put off other heralded reforms—of taxes, labour law and procedures for awarding public contracts for big infrastructure projects, to name a few. He has yet to present reforms of Italy's unaffordable pensions system. Next year's budget, approved by parliament last week, is predicated on a revision of the growth forecast for next year from 3.1% down to 2.3% and a widening of the public deficit to 1.1%, but even those figures may prove too hopeful. Vaunted cuts in income tax have had to be put off too.

Still, Mr Berlusconi has been quick to give various Italians a boost. He has increased child benefits. He has raised the salaries of teachers, policemen and soldiers. He has put the minimum public pension, helping about 2m people, up to at least 1m lire ($475) a month. ("I know the trade unions are disappointed," said Giulio Tremonti, the new finance minister, sarcastically.) Companies in the poor south will get tax breaks, so long as the EU does not object, for hiring young people.

A further devolution of power to the regions will go ahead, if Italians vote in favour in a referendum this weekend. This would endorse the previous government's plan to make Italy's 20 regions responsible for everything, including raising taxes, not actually specified as a matter for the central government in Rome. This referendum's result, unlike most previous ones, will have the force of law, no matter how few voters turn out. The opposition on the left is urging people to say yes. The ruling coalition is at odds. The once-separatist Northern League says the plan is too weak. The traditionally more centralising post-fascists of the National Alliance say it is too strong. Mr Berlusconi's own Forza Italia is ambiguous. Voters will probably say yes.

Charges of criminal wrongdoing and conflict-of-interest problems still nag

But it is the prime minister's own problems that have bothered him most. Broadly speaking, they are twofold. First, he still faces charges of criminal wrongdoing, including bribery and tax fiddles, in at least five sets of proceedings. Second, he is still seeking, as he has long promised, to resolve his conflict-of-interest problems. Not only is he Italy's richest man, with holdings in all sorts of industries, but his companies and his ruling coalition may soon be able to control nearly all Italian television. Neither on the probity question nor on the conflict of interest has he managed to quash the doubts, even among some of his own supporters.

The worst unease concerns a bill to ratify an accord on judicial co-operation between Italy and Switzerland. Changes made to the bill since Mr Berlusconi took office would, if enacted, get him off several of the charges he faces. After a noisy row in parliament, it was eventually passed this week, though President Carlo Azeglio Ciampi still has to sign it into law. Another new bill, still to be presented, would in many cases decriminalise false accounting, a charge previously levelled against some of the prime minister's companies.

On the conflicts-of-interest question, Mr Berlusconi's government has proposed to set up an “authority” (using the English word) of “three wise men” appointed by the speakers of the two chambers of parliament, both of whom happen to be members of Mr Berlusconi's own coalition. This body would monitor all senior public figures, from the prime minister down to big-city mayors, and make representations to parliament or to the courts if it thought a conflict of interest had arisen. But they would not have the power to block decisions or legislation if they reckoned something were amiss. The left, which failed to pass a bill on the same issue during its five years in government, is up in arms. Francesco Rutelli, its leader, calls the latest proposal “a joke”, though it is unclear what he would propose instead.

Since the attacks in America, Italians have rallied to the government they have. Mr Berlusconi's most controversial contribution to the “war against terrorism” has been rhetorical. Speaking in Berlin on September 26th, he declared western civilisation “superior” to that of the Muslim world “stuck in the middle ages”. Politicians across Europe recoiled at the remarks; Mr Berlusconi later blamed the “left-wing media” for misquoting him. Italians on the left jeered at his apparent ineptitude. Many other Italians—and others too—privately chuckled in agreement. But the incident reinforced the impression that Italy's new prime minister is not as skilful as he and his friends would have liked.

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Russia's new foreign policy

Suddenly cosier with the West

Oct 4th 2001 | MOSCOW
From The Economist print edition

Russia's relations with the West are blossoming. Will that last?

AP

They always shared their values, really

CAN this really be the same Vladimir Putin that the West used to treat so gingerly? In the past three weeks Russia's president has launched what on the surface looks like a transformation of his country's foreign policy, placing it firmly with the western coalition against global terrorism. Limp handshakes have given way to warm embraces. But will the new mood last?

Last week Mr Putin pulled off a hugely successful coup in Germany, where he wowed parliament with a speech delivered in fluent German and dotted with erudite references to Kant and Schiller. Russia, he said, was rooted in European values. This week he whizzed into Brussels for friendly chats with top officials in the European Union and NATO. Western leaders heaped praise on him.

In a particularly striking shift in longer-term thinking, Russia now says it wants close ties with—perhaps even membership of—both organisations. In the past, most top Russians have barely understood the EU; NATO they often viewed as a hostile legacy of the cold war. In future, top Russians will meet their European security counterparts every month. This week Mr Putin sounded almost sanguine about the prospect of NATO's expansion.

So what does this amount to in practice? Amnesia, for one thing. Now that the anti-Taliban forces in Afghanistan (see article) are seen as crucial western allies rather than lawless heroin smugglers, Russia's recent admission of military support for them—in breach of an arms embargo that the Kremlin approved in July 1999—passes without criticism. And Russia's past talk of a “multi-polar world” (ie, one not led by America) and “strategic partnership” with China is all but forgotten.

Russia and America have both caught amnesia

Amnesia washes both ways. For their part, Russian officials politely forget some Americans' dismissive talk of a “world without Russia” and of their country as a “failed state”. Russia's scalded reaction to an American newspaper report of ties between Russian organised crime and Osama bin Laden shows how badly Russia now wants to shed its image of a bankrupt, untrustworthy, crime-infested mess.

Russian deeds are making the new image a little more credible. On the immediate question of terrorism, Mr Putin offers measured but solid support—and has, for example, deplored Saudi Arabia's reluctance to help America. Despite squawks from the generals, Russia is not objecting to America and its allies using airspace over bits of the former Soviet Union. Russia is also delivering more weapons, as well as food and clothing, to people in northern Afghanistan. And it says it is giving America intelligence about Mr bin Laden.

Russia may also be improving relations elsewhere. Talks about talks have started with the leaders of the breakaway republic of Chechnya, despite the expiry last week of Russia's 72-hour ultimatum for a peaceful capitulation. The Russians still bluster that these contacts are nothing more than a discussion of surrender terms, but all the signs are that Mr Putin is reining in his warmongers. In any event, the West has already begun softening its criticism of his handling of the Chechens.

In return, after making threats against Georgia before the events of September 11th for allegedly harbouring Chechen rebels, Russia has not bombed or invaded the Pankisi gorge, an ethnically Chechen

bit of northern Georgia. And Georgia is handing over 13 people detained on its northern border who Russia claims are Chechen fighters.

What does the Kremlin want in return?

The big questions now are how deep the change is, how long it will last, and what the Kremlin wants in return. Russia is good at signing up for grand schemes, much less so at making them happen. For instance, a big deal with Germany on investment projects worth DM8.5 billion ($4 billion) that was meant to be signed during Mr Putin's visit has been quietly postponed. “The willingness on the Russian side isn't there yet,” says an involved German. “As soon as they see that a project is profitable, they start thinking that the foreign party is not needed.”

Russia is also pushing ahead with plans that in normal times the West would find alarming. While Mr Putin was in Brussels, his hawkish defence minister, Sergei Ivanov, was holding talks with his Iranian counterpart, Ali Shamkhani, about a weapons deal worth $300m that includes anti-aircraft missiles that worry Israel.

Even Russia's professions of support could yet shift back again. Mr Putin may think that he can play Europe off against America. The main pro-Kremlin party in his parliament thinks that talk of Russia joining NATO is premature. For his part, Mr Ivanov's view of military co-operation with America is extremely sceptical, in contrast to Mr Putin's enthusiasm.

With opinion polls suggesting that three-quarters of Russians still admire Mr Putin's leadership, he can afford to run ahead of his public on foreign policy. But he will want a reward. Despite his mild remarks this week about NATO'S planned expansion to embrace the Baltic states, he recently insisted that only an “inflamed imagination” could see Russia as a threat in the region. So far America is saying, cagily, that the current upheavals will not affect the alliance's expansion.

A more immediate pay-off, though, has come in trade negotiations with the West. The American trade representative, Robert Zoellick, said during a visit to Moscow this week that Russia might be able to join the World Trade Organisation, the body that supervises international business, by the end of next year. That would mark a huge advance for Russia. Talks had been bogged down by Russia's inability to persuade its trading partners that it could create a business regime that is fair to foreigners.

Whatever the mix of opportunism and sincerity in Mr Putin's charm offensive, the main test is results, in security and economic reform alike. They are some way off. But after years of muddle and obstructive bloody-mindedness, the friendly and sensible words now coming from the Kremlin are at least a start.

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Turkey's constitutional changes

Great ideas,on paper

Oct 4th 2001 | ANKARA
From The Economist print edition

The constitution is being improved. But doubts remain

MANY Turks have long thought of their parliament as a bunch of buffoons interested mainly in making money, not laws. That may change, as the 550-member chamber keeps up a marathon session to pass a set of reforms that are intended to clean the face of Turkey's constitution and reinforce the country's still rather wobbly democracy.

Over the past two weeks, members of the six parties represented in the parliament—from ferocious nationalists to moderate Islamists, from leftists to conservatives—have joined forces to approve 34 out of the 37 constitutional amendments designed to steer Turkey closer to its cherished goal of joining the European Union. Each amendment needs 60% of MPs to back it in two separate rounds of voting; in a third round, two-thirds of them must endorse the entire package.

All the first-round changes won approval, except one saying that in a clash between Turkey's national laws and international ones the international ones would prevail. This week the changes were due to win approval in a second vote. They range from loosening curbs on the Kurdish language to reducing the maximum time that suspects can be held without charge from seven days to four.

Official authorisation will no longer be required for people wishing to stage public rallies, but will now be mandatory for the police before they raid Turks' homes or tap their telephones, as they often do. Men, until now regarded in law as “masters of the household”, will in future have no higher status than women.

Another change will bolster freedom of speech. Turkey's top Islamist politician, Recep Tayyip Erdogan, had hoped to benefit, since the Constitutional Court said it would wait for the new rules to come into force before deciding whether to bar him for life from politics, because of a previous conviction on a charge of inciting a religious uprising by reciting a poem. But an amendment to let people with previous convictions stand for parliament failed.

More hopefully, the power of the National Security Council, the body in which Turkey's generals can tell its political leaders what to do, will (at least on paper) be curbed if not altogether removed; in future it will have more civilians than soldiers. But almost all the amendments carry the caveat that they must not undermine the constitution's secular tenets or national security or public order—large loopholes, doubtless insisted on by the generals.

Nor are they the only ones with doubts. The justice minister, Hikmet Sami Turk, has promised to reform the penal code, under which hundreds of politicians, academics and journalists have been locked up—and which is still in force. Yet a prominent journalist, Burak Bekdil, who now risks up to six years in jail for “insulting the state” in an article deploring corrupt judges, claims that the minister is among those pressing for him to be punished.

Moreover, though the death penalty is to be abolished for ordinary crimes, it will stay in place for those committed in the course of terrorism or in a war—a restriction tailored to ensure it applies in the case of the Kurdish leader, Abdullah Ocalan, who was captured in 1999 and sentenced to death. Education in the Kurdish language, one of his demands in exchange for his movement's now two-year-old ceasefire, will still be banned.

Even as parliament voted for change, prosecutors in the southern province of Adana were seeking up to five years in jail for 17 members of the pro-Kurdish People's Democracy Party who had been accused of “promoting separatism”—by organising a football match in which one team wore the colours of the

banned Kurdish flag.

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Guns in Switzerland

For defence, for sport and...?

Oct 4th 2001 | GENEVA
From The Economist print edition

A mass killing has raised questions about Switzerland's easy way with guns

EPA

IT MAY not seem to go with cows, Alpine villages, ski-lifts and a devotion to peace. But you can see it any week at Swiss railway stations: uniformed men kissing their loved ones goodbye as they leave for military service, rifles at their side. Until the age of 42, every Swiss male is a reservist, liable to be called for his annual turn of duty. So 520,000 of them have a weapon at home, typically a Sturmgewehr-90 assault rifle, with five sealed magazines of ammunition. Ex-reservists can a buy a weapon for private use. The system is not going to stop. But 57-year-old Friedrich Leibacher has raised second thoughts about Switzerland's relaxed approach to guns: last week he burst into the cantonal parliament in Zug and shot dead 14 people, wounding as many more.

It was the first time for more than 100 years that any Swiss politician had been murdered, and the largest mass murder that Switzerland can remember. Leibacher, an unstable man who then killed himself, in fact had never done military service. He probably bought the murder weapon, which gun shops sell in semi-automatic form for 3,000 Swiss francs ($1,850). Perhaps for that reason, after the first shock, there was little talk of changing the rules for army weapons. After all, Switzerland has proportionately fewer murders than neighbouring France and Germany. But the rules about buying guns may change.

These vary from canton to canton. Broadly, they allow any citizen without a criminal record to buy a weapon, after an identity check and official approval, and keep it—locked up—at home, for use in a shooting club or for hunting. People can sell guns to each other.

In a matter-of-fact way, Swiss men like having guns as much as Americans do. On top of uncounted sporting weapons, there may be in all 700,000 army-type weapons around in this country of only 7m people. On many weekends, in one residential corner of Geneva, the constant snap of shots fired at a rifle range on the edge of the city emerges above the sound of traffic. Some of the marksmen are formally keeping up their skills for the army, since shooting clubs have close ties with the military authorities. Others are there for fun.

Incidents are said to be rare: the defence ministry estimates that misuse of army weapons may occur “four or five” times a year. And it is firmly dealt with. At least twice in recent years people who had started taking pot shots from their balcony were simply shot by police marksmen. A few people asked questions, but any fuss quickly died down. In fact, the number of incidents may be higher. In some cantons, officials have admitted that incidents involving army rifles are kept quiet, at times in tacit agreement with the local press, so that others do not get similar murderous or suicidal ideas.

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Charlemagne

George Robertson

Oct 4th 2001
From The Economist print edition

George Robertson, NATO's super-policeman

DEPENDING on where you stand, the past three weeks have seen either NATO's finest hour or the beginning of a rapid slide of the world's most powerful military alliance into irrelevance. The second possibility may seem odd, considering that the United States and its 18 partners, a day after the terrorist onslaught on New York and Washington, formally invoked for the very first time Article 5 of the alliance's founding treaty, which pledges to treat an attack on one member as an attack on all. But did this mean that all the countries in NATO would march side by side into battle against terrorism? Plainly not.

Indeed, as it recruits new friends and gees up old ones, everywhere from Tunisia to Tajikistan, the United States has shown little interest in making use of NATO, either for its decision-taking capacity or for its military structure. Donald Rumsfeld, the defence secretary, was too busy to attend a meeting of his NATO counterparts on September 26th. His deputy, Paul Wolfowitz, came instead—and upset the Europeans by failing to offer the proof they wanted that Osama bin Laden's al-Qaeda network was responsible for the attacks. Only on October 2nd did the Bush administration, in the person of the State Department's anti-terrorism chief, find time to brief the allies on the evidence. This in turn cleared the way for America to make some modest requests for military assistance from its allies; but it is making a much bigger effort to court frontline partners like Saudi Arabia and even Uzbekistan. Some Europeans are hurt. As one recent headline put it, NATO is “all dressed up with nowhere to go.”

Is NATO really so important for America's new war?

Not surprisingly, its secretary-general disagrees. Lord Robertson insists that Article 5's invocation carried huge moral weight. It had, he says, an “electrifying effect” in the United States and “had led world opinion” in building a coalition against terror. Yet his view of NATO's practical role in the crisis as “the principal forum for discussion, consultation and thinking” among the western democracies is noticeably modest. And he freely admits that using the alliance is merely one among many choices open to America, which is fully entitled to act alone or to build a new coalition of its own outside NATO.

Where does that leave the holder of NATO's top civilian job, by tradition a European, who is meant to settle transatlantic rows and shore up solidarity inside the alliance? Though NATO's most powerful country is concentrating on its new priority of tackling terror, the club's manager is still tied up with NATO business as usual: keeping peace in the Balkans, coaxing ex-communist states towards the alliance, and being received with pomp and ceremony in one dusty capital after another.

After 18 years of grind as an opposition politician in Britain—and one of the few senior Labour figures with an interest in geopolitics—Lord Robertson has come a long way since his party took office in 1997. As defence secretary, he won American plaudits for his performance over Kosovo and for his proposals to reform Britain's forces. Only after pleading from Washington did Tony Blair release this senior lieutenant to take the job in Brussels that requires so tough a mind and so light a touch.

The effects of this meteoric rise on a man still close to his Scottish roots—he grew up on the island of Islay—can be surreal. A few days after September 11th, a Central Asian leader rang up for advice on how to join the global alliance against terrorism. Since the NATO boss was in a rainy car park in the Scottish town of Greenock, without a translator, the chat was brief.

Many of Lord Robertson's relations—grandfather, father, son and nephew—have been policemen. During a bantering, get-to-know-you session with Russia's president, Vladimir Putin, the NATO boss suggested that he was a family aberration. “Not at all,” replied Mr Putin, himself a former KGB man. “You are a super-policeman.” Mr Putin was in Brussels again this week, seeing the top people at both the EU and

NATO, underlining Russia's new-found indispensability, and even sounding less twitchy than usual about NATO's planned expansion.

Lord Robertson plays down the recently revived idea that NATO might admit its old foe as a full member. “We have never said never,” is as far as he will go. He is also cautious about how fast NATO might expand. While pledging to invite, next year, at least one of the nine or ten applicants, the existing allies had made no promises about the scope or pace of expansion.

Might Uncle Sam start walking away?

In any event, sceptics ask, is it realistic to expect that the United States, facing a deadly attack on its homeland, will now pay much attention to the affairs of tiny countries in the Balkans or by the Baltic Sea? Though agreeing that America may have less energy to invest in south-eastern Europe, Lord Robertson argues that NATO, and in particular its European arm, could become more important as a result. In recent weeks he has worked round the clock to set up a new NATO force in Macedonia, which will be led—significantly—by Germany. In weeks to come, he may have to find extra European troops for the Balkans if their American comrades are sent elsewhere. So last month's events make European aspirations to a degree of military self-sufficiency, under the leadership of the EU, more important than ever, insists Lord Robertson. The Euro-defence idea is “built on common sense and on the reality that Europe needs to do more in order to allow the Americans to take on more of the global leadership role.”

That is an optimistic note to strike, since American patience with Europe had, before September 11th, been wearing thin. As some Americans see it, Europe wants more independence in defence, easier access to American technology and the right to subsidise its own arms industry, while still spending its paltry defence budgets unwisely. Lord Robertson may be right to think that America, with its energy absorbed elsewhere, would love Europe to be more self-reliant—so long as it pays its way.

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Public finances

Into the red

Oct 4th 2001
From The Economist print edition

The chancellor's sums no longer add up. Tax rises are likely in the spring

GORDON BROWN has been a lucky, as well as a prudent, chancellor. The economy has thrived. Money has poured into the Treasury's coffers. Mr Brown has built up a hoard of cash that is now helping to finance a three-year spending spree on the public services. But how will the chancellor who has done so well in the fat years perform in the lean years?

Mr Brown's message to the party conference in Brighton was one of reassurance. These were “times of adversity”, he acknowledged. However, the government's three-year spending programme was safe and additional resources would be found to sustain growth in public expenditure after 2003. With the “economic fundamentals” still strong, there would be no lurch back to the big budget deficits of the early 1990s.

Will Britain escape a recession?

The chancellor certainly has some grounds for confidence. The public finances stand or fall by the health of the economy. As the global economic environment darkens, no one can be sure whether Britain will escape a recession. But with favourable prospects for inflation, the Bank of England has scope to cut interest rates again after this week's quarter-point reduction to 4.5%. *The Economist*'s panel of forecasters now expects the economy to grow by 1.9% in 2002, sharply down from the 2.6% predicted a month ago, but hardly a disaster.

Such a setback to growth would dent the public finances in the immediate future but should still leave Mr Brown's reputation for fiscal prudence and his three-year spending spree more or less intact. Any deterioration in the public finances is starting from the record surplus of £19 billion—2% of GDP—in the financial year that ended in March. Furthermore, Mr Brown deliberately assumed a lowish rate of economic growth of 2.25% a year when doing his sums for the next three years.

Even so, worries persist. The first is that government revenue has been coming in below the level forecast in the budget. In the first five months of this financial year, total current receipts rose by 3.6% over the same period in 2000-01, lower than the 4.3% growth the Treasury is forecasting for the whole financial year. The undershoot stands in marked contrast to Labour's first term, when revenue consistently exceeded budget forecasts.

At the same time, the substantial shortfalls in government expenditure of the past few years now seem to be over. Spending is now increasing rapidly and could grow even faster than forecast in the budget since departments are entitled to carry forward last year's underspends into their outlays this year. The government's contingency reserve of £2.8 billion has already been raided to pay for foot-and-mouth

compensation. Now there will be bills for the war against terrorism.

The swing from surplus to deficit may be abrupt

With the economy slowing, the swing from surplus to deficit may be abrupt. Goldman Sachs, an investment bank, is forecasting that the budget will barely balance this year and will go £7.7 billion into the red next year. Nothing wrong with that, so long as the economy makes up lost ground in subsequent years. But the downturn could be deeper and more protracted than expected, and public finances may have become more pro-cyclical than in the past. In the good times of Labour's first term, revenues kept on coming in above forecast; in bad times, they could now come in consistently below forecast.

Mr Brown will anyway have to raise taxes if he is to sustain his public spending spree after 2003, as the Institute for Fiscal Studies warned during the election. His surplus will have more than disappeared by then. And now Mr Brown will have to find some extra money for defence spending. The defence budget barely increased in real terms in the 2000 spending review, which set plans until 2003-04. Next year's review, which looks forward to 2005-06, will have to provide money for guns as well as butter.

One snag for the chancellor is that it will be difficult to raise taxes if the economy is already weak, since a tightening of fiscal policy could make matters worse. But if the economy is sufficiently robust, a tough budget next spring seems highly likely. Indeed on past form, next month's pre-budget report could well include an announcement of planned tax rises either in 2002 or 2003.

In his Brighton speech, Mr Brown hinted at tax increases next spring. Such a move would be in keeping with his strategy in Labour's first term: his first two budgets tightened fiscal policy to allow giveaways at the end of the parliament. Then Mr Brown justified tax increases as necessary to clear up the mess the previous Conservative government had left. Now he can put at least some of the blame on Osama bin Laden.

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Asylum and immigration

Give me your toilers

Oct 4th 2001
From The Economist print edition

Sensible talk on migration; silence on asylum

THERE is probably no good time for a home secretary to inform the great British public that he intends to invite in thousands of extra foreign workers. But there can be few times quite so unpropitious as now. So it is to David Blunkett's credit that he told the Labour conference about his new plans to encourage economic migration. Bolder still, those plans encompass not only doctors and IT specialists, but also the unskilled.

Mr Blunkett says he wants to be “rational” about economic migrants. Precisely what (and how many) that means remains sketchy, though he did outline some ideas. Foreign students may be allowed to stay on after they graduate, and more seasonal workers in agriculture and tourism may be let in. Least controversially, the highly skilled will from next year be able to come to Britain to look for a job if they can support themselves, rather than first convincing an employer to endure the rigmarole of getting them a work permit.

But Mr Blunkett also talked about a new quota system for industries experiencing labour shortages, which might include, for example, construction and catering. Other countries, such as Australia, already let in some unskilled workers. America has a lottery system. But for the past 30 years, Britain has admitted only business people, relatives of residents, and small numbers under short-term work-permit and seasonal labour schemes.

This parsimony, Mr Blunkett rightly said, is a boon to the people-traffickers and unscrupulous employers who exploit illegal immigrants. Of course, importing more unskilled workers will alarm those voters who think immigrants gobble up jobs and benefits. But there are some vital but unappealing jobs that indigenous people, even unemployed ones, won't do. Though the well-meaning but woolly-minded will be anxious about importing an underclass, history suggests that immigrants are generally too determined and entrepreneurial to remain underdogs for long.

Mr Blunkett also promised that, within four months, no innocent asylum-seeker would be locked up in prison. This pledge, and the immigration plans, have helped temporarily to appease those Labour activists who want the asylum system to be reformed. The results of a preposterously long review of the government's voucher scheme—which obliges asylum-seekers to subsist on vouchers worth 70% of benefits, and for which they can't get change—was due to be announced last week. Pleading September 11th, Mr Blunkett promised to reveal his thoughts on vouchers, and the equally controversial asylum-seeker dispersal system, later this month.

If he really is still pondering the merits of vouchers, he ought to consult a 1997 report by the development select committee. The parliamentary committee visited the volcano-ravaged island of Montserrat, and recommended that a voucher system being used to feed displaced people should be scrapped—citing, among other things, the difficulties recipients faced getting change. The British government agreed; Montserrat duly obliged.

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Afghans in London

Southall's tribes

Oct 4th 2001
From The Economist print edition

London's Afghans replicate the divisions in their homeland

AT THE Kabul Restaurant in the Himalayan Shopping Centre in Southall, a promiscuously multicultural west London suburb, the waiter is understandably reluctant to discuss politics. Like most immigrants, only more so, London's Afghans are keen to keep their heads down and avoid altercations. Within the community, though, there are divisions that reflect, if more peaceably, the fissiparous politics of Afghanistan itself.

There are probably around 40,000 Afghans in Britain. Some have been dispersed by the government to cities in the north, but the majority live in London. Like other immigrant communities that settle around their original points of arrival, London's Afghans mainly live in a suburban arc close to Heathrow airport, from Southall and Hounslow through Ealing and Acton, and up to Harrow.

Unlike the other immigrant groups that have colonised the same territory, few of the Afghans are classic economic migrants (those with the wherewithal to make it to Britain tend to have been relatively well-off at home). They were pushed out, rather than pulled in, by successive cataclysms, from the Soviet invasion through the anarchic brutality of the years before the Taliban took power to the privations that regime subsequently inflicted. Because different types of political and religious repression impelled the successive groups of exiles, they hold divergent views about who is to blame for Afghanistan's plight, and what ought to be done about it.

Sayed Ishaq Tabibi, secretary-general of the Society of Afghan Residents, says that although it is non-denominational now, his organisation used to be perceived as belonging to the Pashtuns, who come from south-eastern Afghanistan and north-western Pakistan, and make up Afghanistan's largest ethnic group. The Taliban and most of their supporters are Pashtuns. Some London Pashtuns, partly because of newly inflamed ethnic rivalries, and partly because they remember the chaos that preceded them, are quietly sympathetic to the Taliban.

Support for the Northern Alliance is more conspicuous. A memorial service was held last weekend in a west London mosque for the assassinated Alliance leader Ahmad Shah Masoud. His brother, Ahmad Wali Masoud, runs the Afghan embassy in London. The Masouds are Tajiks, but the embassy claims the support of Pashtuns as well. Many Anglo-Afghans will endorse any leader they think might be able to pacify the country—which explains the popularity of the ex-king, Zahir Shah (see article), whose son-in-law also lives in London.

Whatever their politics, London's Afghans worry about their compatriots' safety—and about their own, which an attack on Britain would put at risk. The Afghan Association of London, based in Harrow, is reputed to be dominated by supporters of the ousted Soviet-backed regime, though Sami Aziz, one of its leaders, insists it is strictly ecumenical. Afghans in London, Mr Aziz says, like the ones left behind, “just want a peaceful life”.

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Aviation

Grounding night flights

Oct 4th 2001
From The Economist print edition

More bad news for airlines

AS THOUGH things were not already bad enough for airlines, this week the European Court of Human Rights decided that the government failed to strike a fair balance between the economic benefits of night flights and the sleeplessness of hundreds of thousands of Londoners. The judgment is a particular threat to BA, which operates seven out of the 15 flights that arrive every morning between 4am and 6am at Heathrow. The airlines claim that a night flight ban would cost them more than £500m ($750m) a year.

The court's ruling under Article 8, which guarantees “respect for family life”, and Article 13, which provides for “an effective remedy before a national authority”, was unequivocal. But it is almost certainly not the end of a 25-year battle between residents and airlines.

In 1983, when the first attempt to secure approval for a fifth terminal at Heathrow was made, the inquiry inspector, Graham Eyre, described night flights as “a particular curse” and recommended that they should be banned. Since then there have been four judicial reviews into night flights. In each case, after victory for the anti-noise campaigners in the lower courts, the Appeal Court found for the government. But defeated campaigners have won on points. In the last judicial review in 1995, Mr Justice Sedley described a government consultation paper on aircraft noise as “a farrago of equivocation” and “devious and deeply unattractive” in its presentation and reasoning.

As the fight has gone on, so the noise has got worse. The regime the government imposed on the airlines in 1993 has allowed them to double the number of flights between 11pm and 7am. Between 6am and 7am, a plane lands at Heathrow every 90 seconds.

Residents' disturbed nights are likely to continue for some time yet. The European Court's ruling was narrowly focused on the British government's failure to carry out adequate studies. During the case, the government's lawyers were forced to concede that they had not made any attempt “to quantify the economic benefits of night flights or to draw up a balance sheet including the environmental disbenefits”.

The government could appeal, but given the court's clear 5-2 majority and the tenor of the judgment, it is unlikely to get the decision reversed. Simply ignoring the court's finding is even less likely because the government prides itself on observing European Court rulings.

Ministers will probably play for time by ordering a further review while allowing night flights to continue. The government has already announced that it is to commission a big study into aircraft noise and its effects on people. The research on which the government is currently relying dates back more than 20 years. Critics say that it is not just out of date, but also methodologically flawed.

The announcement of such a review is likely to be made next month to coincide with the government's go-ahead for the construction of a fifth terminal at Heathrow. The inquiry inspector, Roy Vandermeer, whose recommendation backing the new terminal has been accepted by ministers, is understood to have attached tough conditions limiting night flights.

Before September 11th, ministers might have been tempted to soften the acceptance of Terminal 5 by going along with—or even further than—these recommendations. But given the airlines' current troubles (BA's market value is little more than half what it was on September 10th), the government is less likely to impose tough conditions on them right now. In the long run, though, residents are likely to sleep more soundly.

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Rebranding

Taking the sex out of Essex

Oct 4th 2001
From The Economist print edition

A notorious county wants to change its image

IN THE parlance of professional branders, every brand needs a few “key values” that embody its identity—such as “trustworthiness”, “quality”, that sort of thing. The key values most Britons would probably associate with Essex, a south-eastern county adjoining London, include “vulgar”, “right-wing” and “promiscuous”. Now the council, understandably if a little optimistically, wants to modernise the county's image.

The Essex brand is probably the most entrenched of any county in England. During the 1980s, “Essex man”, generally found at the wheel of a Ford Capri, became the poster (or whipping) boy of unreconstructed materialism. Even more infamous is his sister, “Essex girl”, who wears white stiletto shoes, dances round her handbag, and is the butt of jokes too ribald to publish. Like her American equivalent, Jersey girl, she is big on hair but low on modesty. Essex has also elected a string of hard-right Eurosceptic MPs, including the new leader of the Conservative Party. In their company, he looks like a mushy liberal.

Apparently, though, the time has come for Essex boy and girl to grow up. Lord Hanningfield, the leader of Essex county council, worries that this brash image deters companies from locating there. The council is hoping to secure government funds to overhaul its brand. It wants Essex to be known less as a vast brothel for arrivistes, and more for its good schools, beeches and infrastructure. The aim is to attract more businesses, and reduce the number of workers who commute into London to make their pile.

There are precedents for this sort of makeover. Lucie Cohen, a branding expert at 20.20, a hip London consultancy, says consumers do accept brand repositioning, citing the example of BP, which has re-invented itself as a guardian of the environment and the earth's future. She suggests that “vulgar”, “right-wing” and “promiscuous” could be morphed into “affluent”, “best of British” and “young and energetic”.

But the fiery pride of Essex residents could be more of an obstacle than the scepticism of outsiders. Barry Hearn, a boxing promoter, football club owner and self-proclaimed Thatcherite Essex man, says that the Essex model of making and spending cash is an example to working people everywhere. The county should be able to laugh at itself, says Mr Hearn—though these days, he claims, “Ferraris and tiaras” are more common than the Ford Capris and white stilettos of legend. Mrs Hearn, he says rather mournfully, never wore those anyway.

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Universities

Degrees of poverty

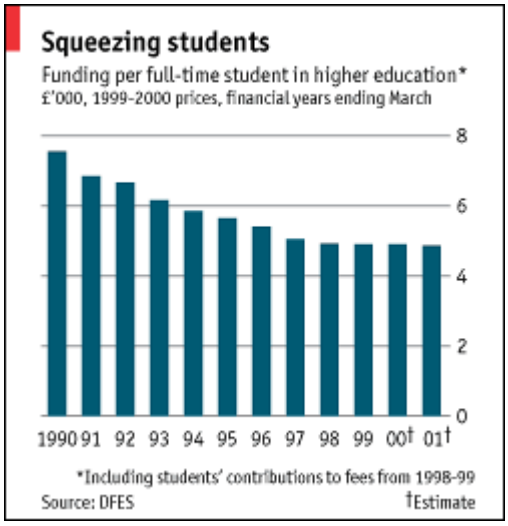
Oct 4th 2001
From The Economist print edition

Universities are in a financial mess, and the government will neither give them enough money nor allow them the freedom to increase fees

STUDENTS, a troublesome lot at the best of times, haven't stopped giving the government grief since it scrapped maintenance grants and introduced tuition fees soon after it came to power. Their protests have paid off. On October 3rd, the education minister, Estelle Morris, announced that the system would change.

Concern that rising levels of debt have become a disincentive to going to university is the main motive behind the government's move. “I recognise,” said Ms Morris, “that for many low-income families fear of debt is a real worry and could act as a barrier to higher education.” Details are still being worked out, but the government seems likely to adopt a graduate tax—under which graduates pay for their education after they have left university, through a higher tax rate—and to reintroduce maintenance grants.

That may be the right answer for students, but it will do nothing to solve a far more serious financial crisis—that of the university sector as a whole. Since the expansion of the universities began in the late 1980s, the number of students has doubled, but government funding has barely increased. The amount of money the universities receive for each student has fallen sharply (see chart).



University vice-chancellors do not agree about much, but one thing that there is a consensus on is the size of the gap between what they get and what they spend. It is, they say, £900m a year and rising. Some 25 of Britain's 170 higher-education institutions are running at a deficit, and many others have had to make substantial cuts to balance the books.

The main casualty, say academics, is the quality of education. In a speech on underfunding on October 2nd, Graham Zellick, the vice-chancellor of London University, said that many universities are now running “useless degrees” for unqualified students just to earn extra income. And the universities' poverty is also harming their earning prospects. As British universities struggle to retain the best staff, and fall further behind their American counterparts, they find it harder to compete for the foreign students who bring in extra money.

The government, it seems, has no plans to solve the universities' problems. “We won't have all the money that we need for the future,” says Margaret Hodge, minister for further education. So if the universities are to balance their books, they will have either to cut costs or to raise more money.

In an effort to cut costs, a few universities, such as North London and London Guildhall, are already merging. More may do so in the near future. Others, such as Glasgow and Strathclyde universities, are creating “strategic alliances” to share the costs of courses and expensive teaching facilities.

There is probably scope for more of this. A report into university funding by Sir David Watson, director of

the University of Brighton, pointed out that Britain has 170 higher-educational institutions for a population of 59m, whilst France manages with 100 higher-educational institutions for a similar population.

But the funding gap cannot be bridged only by cutting costs, so universities are looking at how they can raise more money. The “Russell Group” of top universities (such as Oxford, Bristol and Nottingham) has argued for the introduction of top-up fees, whereby universities would be allowed to charge market rates for their courses. Thus law at Oxford would command a higher fee than surf science (yes, really) at the University of Plymouth.

Proponents of top-up fees argue that a degree confers a huge private benefit on a graduate, and so the graduate should have to shoulder the cost of that education. The Russell Group estimates that a graduate earns £400,000 more during his life than a non-graduate with two A-levels. Furthermore, top-up fees need not deter lower-income families. As in America, the income from fees could be used to fund means-tested scholarships and bursaries for poorer students. And the amount of money that a student can borrow (currently £3,725 a year outside London) could also be increased. Many educationalists, including those who advise the Labour Party, argue that the government will have to introduce top-up fees eventually, and that by failing to do so now, it is allowing the universities to deteriorate further.

But the government's reluctance to go down this route is understandable. Top-up fees may make sense economically, but they raise political difficulties, for they fall most heavily on the prosperous types whose defection from the Tories brought Labour to power.

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Bagehot

Getting above his station

Oct 4th 2001
From The Economist print edition

Tony Blair announces that he is prime minister of the world

A FORTNIGHT ago, Bagehot expressed mild alarm about Tony Blair. In the wake of the terror attacks in America, the prime minister was demonstrating all the qualities of articulacy, emotional fluency and moral purpose for which he is justly famous, and which might be expected to make him an excellent prime minister in times of war. This was good, up to a point. But there was a point at which it might become bad. The danger was that Mr Blair might come to see himself not as the leader of a medium-sized country in Europe but as the leader of a global alliance of good against evil. Since Britain was bound to be the junior partner in George Bush's "war against terrorism", that is no longer the proper job, if it ever was, of a British prime minister. The premiership today consists of more humdrum challenges, such as giving speeches at seaside party conferences and sorting out the trains.

As ever, it is easy to underestimate Mr Blair. This week, the prime minister travelled to the seaside resort of Brighton for the annual conference of his Labour Party. There he discovered something that other people had previously overlooked: a seamless, logical connection between his own party, his own policies, his own premiership and the future of the planet Earth.

Roll over, Palmerston

Mr Blair is often compared with Gladstone. Lord Palmerston is a better parallel. In 1849, when Britain was in its full imperial pomp, Palmerston made a preposterous speech to Parliament. His theme was the relationship between England and the rest of the world. Whereas in other parts of the world, thrones had been shaken and levelled, and institutions had been overthrown and destroyed, England had projected a spectacle worthy of the admiration of mankind. It had shown that liberty was compatible with order; and that individual freedom was reconcilable with obedience to the law. This was a nation in which every class of society accepted with cheerfulness the lot which Providence had assigned to it; while at the same time every individual of each class was constantly striving to raise himself in the social scale—not by injustice and wrong, not by violence and illegality, but by persevering in good conduct, and by "the steady and energetic exertion of the moral and intellectual faculties with which his Creator had endowed him".

This bit of Palmerston's speech has not lately enjoyed the prominence it deserves. Had it done so, this 19th-century Whig grandee would have been swiftly rehabilitated as an early exponent of Mr Blair's "third way", with its happy balancing of rights and responsibilities and faith in the operation of meritocracy. History, however, remembers mainly a later passage, the one in which Palmerston invited the House to consider

> whether, as the Roman, in days of old, held himself free from indignity when he could say *Civis Romanus sum*; so also a British subject, in whatever land he may be, shall feel confident that the watchful eye and the strong arm of England will protect him against injustice and wrong.

As British schoolboys know, the wronged British citizen to whom Palmerston was referring was Don Pacifico, a Jewish resident of Athens whose house was set on fire by an anti-Semitic mob. When the

Greek government failed to compensate him, Palmerston sent a British fleet to set matters right.

By Mr Blair's standard, Palmerston was a wimp. Palmerston extended England's protection to Britons, wherever in the world they might be. Mr Blair has extended his protection to anyone in the world, no matter what their nationality.

Transforming the planet is high on the agenda

In his Brighton speech, Britain's prime minister did not promise merely to punish Osama bin Laden and his Taliban protectors. He promised to sort out the war in Congo. And not just Congo. Mr Blair explained his plans to bring democracy, good government and prosperity to all of Africa. He called also for the defeat of global warming, for the creation of a Palestinian state, for justice in Northern Ireland, for more free trade, for Britain to join the euro (when the economic conditions are met), for a melding of the American spirit of enterprise with the European spirit of solidarity, for the building of bridges, for realism but also for idealism, for peace but also for a strong defence, for the many not the few, for a flexible economy but also for fairness at work, for public investment (but not for public spending), for the reform but not the privatisation of the health service, for equal worth but not for equal outcomes, for the understanding of Islam but also for the understanding of Judaism and Christianity, for freedom not only in Britain but also for "the starving, the wretched, the dispossessed, the ignorant, those living in want and squalor from the deserts of Northern Africa to the slums of Gaza, to the mountain ranges of Afghanistan".

Blimey. It was always understood that New Labour was saving the big stuff for its second term. Voters had been primed to expect Mr Blair to organise a transport initiative here, a public-private partnership there. Some worthwhile changes had been expected in the procedures for adopting children. There might even be a referendum on joining the euro. But this—this is ridiculous. The only plausible explanation for Mr Blair's planet-transforming peroration from Brighton is that the poor man has let the war against terrorism go to his head.

Worst of all, Mr Blair thinks it all hangs together. His own political vocation, globalisation, social and economic reform at home, humanitarian intervention abroad—all are linked "by a common thread of principle". This principle is "community": just like individuals, nations do better, you see, when they join together. And this from the party which mocked Margaret Thatcher for likening running the economy to thrifty household management. Mr Blair may not have frightened the Taliban, but this has been a disturbing week for Britons.

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Arms companies

The defence industry's new look

Oct 4th 2001 | FRANKFURT, LONDON AND LOS ANGELES
From The Economist print edition

Last month's attacks will accelerate changes already under way among defence contractors on both sides of the Atlantic

IT IS the one industry you would expect to be rubbing its hands at its prospects. Yet since September 11th, it has been shrouded in the same uncertainty that hangs over most businesses. The big defence companies' bosses seem unsure about how they will be affected, although they sense that the new situation could fundamentally change defence production and the structure of the industry on both sides of the Atlantic. It should also shift defence procurement from traditional ships and fighter aircraft towards sophisticated surveillance and reconnaissance devices such as Northrop Grumman's pilotless Global Hawk (pictured above) or even unmanned fighters. A broad coalition against terrorism might deepen industrial links across the Atlantic—but it could also make the Americans jumpier about sharing technology.

America's four-yearly defence review (see article) has been hastily rewritten in recent weeks, shifting resources towards countering “unconventional threats” such as the attacks on New York and Washington. Meanwhile, European countries, including Italy and Germany, have announced increases in defence spending. As defence budgets rise after what Americans are now calling 9/11, contractors' revenues and profits should rise too.

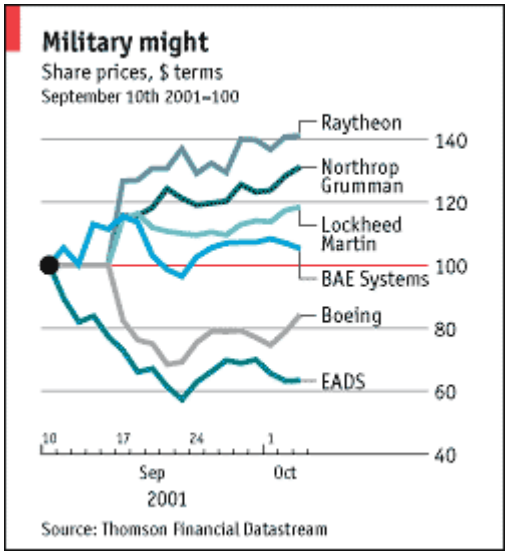
The financial markets quickly latched on to this in mid-September (see chart). Shares in firms such as Raytheon, Northrop Grumman, Lockheed Martin and BAE Systems, which are pure or predominantly defence businesses, rose. Europe's EADS and America's Boeing fell because they are mostly civil manufacturers. EADS depends on civil aviation for about 80% of its revenues; Boeing's civil operations account for 60% of its business.

The post-cold-war slide in defence spending on both sides of the Atlantic was showing signs of bottoming out even before the terrorist attacks. In America, spending had fallen to 2.4% of GDP, compared with the 6.4% reached under Ronald Reagan, when the Pentagon spent as much as $120 billion a year on weapons. Recently it has been spending around $42 billion a year, a figure that may soon climb back to $60 billion. Even Harvey Sapolsky, an MIT defence expert who thinks America has grossly overspent on weapons since the end of the cold war because of aggressive industry lobbying, recognises that “money is no longer a constraint in the foreseeable future.”

The Aerospace Industries Association in Washington is not so sure. Joel Johnson, a vice-president, reckons that most of the increase in spending over the next year will be on consumable items such

as kerosene and other supplies to mount an international operation, rather than on replacing missiles or aircraft. The only change he predicts is that American fighters and bombers near the end of their useful life may now be replaced a bit sooner, because Congress will be more willing to vote through the necessary funds.

Some more immediate changes are in the offing, however. Already, notes Bill Lawler of Boeing's defence division, the Pentagon is talking to Boeing about ordering 60 more C-17 giant military transport aircraft, which can carry tanks around the world, rather than running down production as previously planned.



Europe eyes America

Among the keenest followers of shifts in American policies are the bosses of Europe's big defence companies: John Weston of Britain's BAE Systems, Denis Ranque of France's Thales (previously Thomson-CSF) and Manfred Bischoff at EADS. They are now tracking the Pentagon's thinking more eagerly than ever. “The United States will be the biggest market for the next 50 years,” says Tom Enders, who runs EADS's defence-systems division. What attracts the Europeans is not just the size of the market but the profit margins, which tend to be bigger than in Europe. BAE already sells more to the Pentagon than it does to the British Ministry of Defence. As for the effect of last month's attacks, Mr Ranque thinks that “it is a landmark event. I can't emphasise enough how important technology will be from now on”—a reference to the sophisticated electronics that Thales happens to produce and wants to sell more of in America.

The formation of a grand alliance against terrorism should boost co-operation between European and American defence companies. There are already many examples: Boeing and BAE are developing a new refuelling tanker aircraft; Airbus has linked with Lockheed in the same market; Thales has ties with Raytheon in military radar; and EADS has a joint venture with Northrop Grumman in defence electronics and pilotless planes (known as unmanned aerial vehicles, or UAVs), and a business with Boeing in missiles.

However, further joint ventures are unlikely to burst suddenly into bloom in the light of the new emergency. For one thing, as Mr Ranque observes ruefully, American export controls might be tightened because of concerns that American technology might leak through Europe to what he calls “grey countries”. Another source of transatlantic discord is the Europeans' insistence on spending $4 billion to develop a military transport plane, known as the A400M, to be built by Airbus. The Americans would prefer to leave Lockheed Martin with the monopoly it enjoys in this segment with the C130J Hercules transporter, even though this cannot carry the armoured cars that are essential for rapid-deployment forces.

Pentagon officials fume that the Europeans are wasting scarce resources on boosting Airbus, when the money could be better spent on upgrading their woeful communications systems. However, as Charles Grant, director of the Centre for European Reform, points out, the Europeans need new giant transporters, and they are more likely to find the money for them if they are built in Europe and are seen as “enhancing European defence policy”.

The military revolution deferred?

The big question for the American contractors is how far the balance will shift away from traditional hardware to sophisticated new systems for fighting remote battles. Mr Lawler of Boeing sees a new emphasis on precision weapons, surveillance gear such as UAVs, and mobility, given the global reach of anti-terrorism activities.

But that does not mean existing programmes will be ditched. Boeing and Lockheed Martin still expect to hear at the end of this month which of them has been chosen to lead production of the $200 billion Joint

Strike Fighter (JSF)—the biggest defence project ever. This will equip allied air forces and navies with 6,000 successors to the ageing jump-jets first developed in the 1960s. Although formally this is a winner-take-all contract, industry executives expect the runner-up to be involved as a subcontractor. Likewise, America's controversial missile-defence programme is now more likely to swim through on a rising tide of national insecurity.

Many new intelligence-gathering systems will be field-tested in Afghanistan, including the Global Hawk. This flies higher than any other UAV (65,000 feet) and has sensors that let it see what is happening on the ground in great detail, even through haze or in the dark. It can stay aloft for 36 hours. Six prototypes are being prepared for use in Afghanistan; the Pentagon is ordering more.

More than ever, conflicts will be decided by the quickest intelligence rather than the heaviest firepower. Northrop Grumman realised this long before most other defence companies. Much of the credit goes to Kent Kresa, who engineered Grumman's merger with Northrop in 1994. A former Pentagon strategist, he has been urging reform of America's defences since the collapse of communism.

The quickest intelligence, not the heaviest firepower, will decide conflicts

To an extent there is already a greater reliance on weapons systems that operate a long way from the battle zone, relying on long-range surveillance and intelligence and the ability to make precision strikes at enemy targets unseen. This has shifted defence procurement away from bigger and faster aircraft and towards advanced electronics and software. There is even a proposal to develop an unmanned fighter aircraft, to be built by Northrop Grumman or Boeing.

Mr Kresa has refashioned Northrop Grumman to meet this new demand, and half the company's sales are now in radar and fancy electronics. But as the steady progress of the JSF indicates, none of this spells the end of either the manned warplane or the tank.

Having completed all 21 of the B-2 stealth bombers ordered by America's air force, Northrop Grumman has contacted the Bush administration, offering to build 40 more for a mere $545m apiece. If the Lockheed Martin team wins the contract to build the JSF, then Mr Kresa's company, as a Lockheed partner, would end up with a 17% stake in America's manned fighter for the 21st century. The military revolution championed by Mr Kresa, in which wars will be fought with information rather than pilots and bullets, continues. But it is not going to overthrow every last bit of the traditional military-industrial complex quite yet.

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American retailers

Nightmare on Fifth Avenue

Oct 4th 2001 | NEW YORK
From The Economist print edition

The outlook is bleak for swanky stores, much better for discount chains

“MAYOR GIULIANI is telling us to get back and enjoy life, but shopping isn't fun any more.” Audrie Smolen, a design consultant, is wandering listlessly around the jewellery counters at Bergdorf Goodman, Manhattan's poshest department store. “Browsing takes my mind off things,” she says. “But I am not buying. After what happened, my heart's not in it.”

Less than three months before Christmas, shopping seems to be the last thing on any New Yorker's mind. Fifth Avenue, home to some of the world's most expensive retail outlets, looks abandoned. Even Tiffany's jewellery store is eerily quiet. Fearful of appearing insensitive at a time of crisis, some Manhattan retailers seem to be actively discouraging shoppers. Huge Stars and Stripes flags patriotically mask window displays. A banner at Kenneth Cole, a swanky clothes store, reads: “What we stand for is more important than what we stand in.”

But more shopping is what American retailers need, and the next three months will be crucial. Traditional retailers usually make as much as half their annual profits in the quarter leading up to Christmas. As for the dwindling band of Internet retailers such as Amazon, a bad Christmas could threaten their very survival.

The terrorist attacks could not have come at a worse time for the industry. Even before September 11th, consumer confidence was deteriorating rapidly, with a plunging stockmarket, talk of recession and growing fears over job security. The 1.4m job cuts announced so far in 2001 are more than double the number for the whole of 2000. In September, consumer-confidence surveys registered the biggest monthly falls since the Gulf war. The implications are grim. The National Retail Federation, which represents 1.4m retailers, has cut its fourth-quarter sales-growth forecast almost in half, to 2.2%.

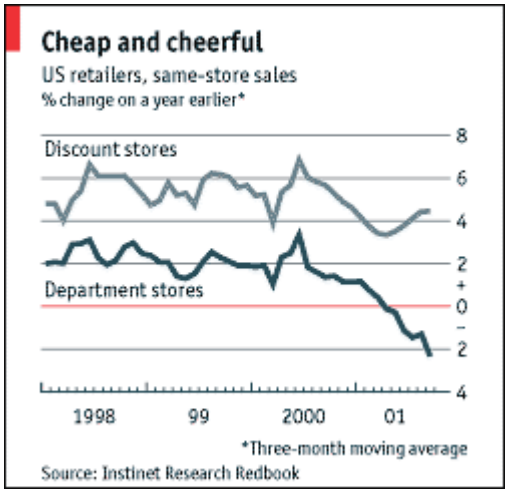
Not all retailers will suffer equally. The biggest losers are likely to be the pricier department stores, speciality chains and luxury stores. Richard Baum, a retail analyst at CSFB, thinks that discretionary spending on fine jewellery and other luxuries will be the first to dry up and take the longest to recover, just as it did after the Gulf war. The markets agree. When trading reopened a week after the attacks, shares in Tiffany promptly fell by 21%; those in Neiman Marcus, an upmarket department store, and Gucci, a luxury-goods firm, fell by 8%. Many of the country's retail chains have issued warnings of a sharp fall-off in business following the attacks. Nordstrom is slashing prices by as much as 60%, in its first early-autumn sale in 40 years. Federated, which owns Macy's and Bloomingdale's, says that sales have fallen by 20% below forecasts since the attacks. And Saks is cutting inventory and has said that temporary store closures will lop 12-15% off its September sales.

For many retailers, the attacks will also raise costs, as advertising campaigns and merchandise are changed to reflect the new sombre mood. Laughing faces in ads are being replaced by comforting images of candles and pillows. Gap has banned extensive use of the colour red in its in-store ads to avoid causing offence.

So will there be any winners? Mike Niemira, an economist at Bank of Tokyo-Mitsubishi, thinks that another cut in American interest rates, plus tax rebates, lower energy costs and less travel, may help to give consumers extra money to spend over Christmas. The beneficiaries will be retailers offering value for money—in particular, discounters such as Wal-Mart and Costco, cheap clothing chains such as the foreign-owned Zara, and groups such as Walgreens and Kroger, which sell food, drugs and other basic necessities.

As large department stores have slipped into recession in recent

months, discounters' sales have moved in the opposite direction (see chart). Wal-Mart announced on October 2nd that it would open or enlarge 440 stores next year, 40 more than this year, and that it was confident of hitting earlier profit forecasts. The company's upbeat mood may have something to do with soaring demand for its guns and ammunition, which, alongside gas masks, antibiotics against anthrax, and flags, has reached record levels. Wal-Mart has had so many requests for firearms that it has almost run out of stock in some stores. Not something Tiffany needs to worry about.



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Europe's collapsing airlines

Black days

Oct 4th 2001
From The Economist print edition

Switzerland's flag-carrier goes into bankruptcy, quickly followed by Belgium's

EPA

FOR Switzerland's most respected newspaper, the *Neue Zürcher Zeitung*, October 1st was “the blackest day in Switzerland's economic history”. For its most popular daily, *Blick*, the events surrounding the bankruptcy of Swissair, the first collapse of a European flag-carrier, were a huge blow to the country's image as a solid business and financial centre. Switzerland had revealed itself, underneath its placid exterior, as a “banana republic”. Beyond Switzerland, the repercussions were also widely felt, starting with the collapse of Sabena, Belgium's national carrier and a Swissair associate, on October 3rd.

Even before the terror attacks on America, Swissair had been in trouble because of a disastrous diversification and expansion, which saw it take dubious minority stakes in a slew of wobbly European airlines. Ever since the attacks, it had been struggling to survive and desperately in need of funds for recapitalisation.

Over the weekend, it became clear that no such money was available. The Swiss government offered to play a supporting role in a rescue, but Switzerland's big banks, UBS and Credit Suisse—whose combined exposure to Swissair was around SFr500m ($310m) in loans, plus small equity stakes—were reluctant to bail out the entire airline. They were prepared to pitch in only enough to sustain a much-slimmed-down carrier. Behind the recriminations lies an obvious truth: from the start, events moved too fast for the Swiss government, which is used to conducting its affairs at a glacial pace.

The Swiss government is used to a glacial pace and was caught off-guard

The banks proposed to help Swissair by acquiring Crossair, a reasonably healthy regional airline 70% owned by Swissair, and then reversing the best bits of Swissair (ie, its most lucrative routes and newest aircraft) into the smaller affiliate. Other parts of Swissair would use the proceeds from the sale to keep going. The transaction was set in motion, with the banks agreeing to pay SFr260m for Crossair shares and to provide standby loan facilities.

But despite pleas from Mario Corti, Swissair's boss, the money did not arrive until the evening of October 2nd, too late to keep its fleet in the air. By noon that day, the oil companies were refusing to sell jet fuel to Swissair unless it paid cash up front. By the middle of the afternoon, BAA, the company that owns London's airports, had seized two Swissair jets because of an unpaid bill of £300,000 ($440,000) for landing fees. Some 18,000 passengers were stranded around the world. In Zurich alone, 4,000 travellers found they could not fly. Such was their incredulity at the grounding of the famous white-cross tailfin that many passengers refused transfers to other European airlines, which were busily adding extra flights.

The incredulity turned to anger. On October 3rd, 10,000 demonstrators marched through Zurich's financial district to protest at the banks' failure to do more for Swissair. UBS, dubbed United Bandits of Switzerland by some, received two bomb threats. Within hours, the government bowed to public pressure and offered SFr450m of emergency cash to get the airline flying again on October 4th. Similarly, the Belgian government came up with emergency aid for Sabena—though the European Commission may object.

Out of this extraordinary Swiss business disaster, further humiliation lurks for a country whose pride has been shattered. Crossair and the banks have ducked responsibility for Swissair's huge debts by letting it

go bankrupt. But there is no guarantee that they will be able to buy all the bits they want. The way could be open for foreign airlines to take over slots vacated by Swissair. The complicated rules governing national rights and routes stand in the way of this rationalisation. But there is nothing to stop a foreign airline that already has a Swiss subsidiary from trying to enter the bidding for bits of Swissair. One such carrier is easyJet, a British low-cost airline that has suffered less from the aftermath of September 11th than bigger rivals.

Swissair and Sabena will not be the last airlines to seek protection from their creditors. Several of America's ten largest carriers are in danger of collapse, despite last week's government bail-out. Among the weakest financially are America West, Northwest, Continental and US Airways. In Europe other once-proud flag-carriers, such as KLM of the Netherlands, may be weeks away from oblivion.

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Starbucks in China

Coffee with your tea?

Oct 4th 2001 | BEIJING
From The Economist print edition

Learning to love a strange brew

AP

A refreshing change

IF THE postings that have flooded China's Internet bulletin boards since September 11th are any guide, there is not much sympathy among the nation's educated youth for the plight of Americans. Yet as Starbucks can testify, hot-headed anti-American nationalism in China has remarkably little impact on consumer preferences.

The Seattle-based coffee-shop chain is the latest symbol of American consumer culture to make its mark on China's rapidly changing urban landscape. First came Kentucky Fried Chicken, which pulled off the extraordinary coup of opening a huge outlet next to Tiananmen Square in 1987, and now has nearly 500 sites across China. Next came McDonald's, which first erected its golden arches in Beijing in a prominent central location in 1992. It now has more than 370 outlets around the country and, like KFC, has big expansion plans.

Starbucks' penetration is perhaps most remarkable of all, given that China is a country of devoted tea drinkers who do not take readily to the taste of coffee. Its first outlet in China opened in January 1999 at the China World Trade Centre in Beijing. It now has more than 35 shops, mainly in Beijing and Shanghai. “When we first started, people didn't know who we were and it was rough finding sites. Now landlords are coming to us,” says David Sun, president of Beijing Mei Da Coffee Company, which owns the Starbucks franchise for northern China.

Chinese nationalism can be curiously selective. After the bombing of the Chinese Embassy in Belgrade in May 1999, hundreds of thousands of enraged Chinese took to the streets to denounce the Americans and hurl stones at their diplomatic missions. But KFC and McDonald's outlets escaped largely unscathed, apart from a brief downturn in custom.

In September last year, Starbucks touched a nationalist nerve when it opened a small outlet in a souvenir shop in Beijing's Forbidden City, a symbol of Chinese pride. A flurry of critical articles appeared in the local media, and more than 70% of some 60,000 people who replied to an online survey opposed the move. Yet the outlet is still serving coffee, and there are no plans to close it. “The management of the Forbidden City is 100% with us,” says Mr Sun, who hopes to open five more outlets by the end of the year.

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South African security companies

An industry hijacked

Oct 4th 2001 | JOHANNESBURG
From The Economist print edition

Foreign investors face ejection from a booming business

ARMED-RESPONSE units prowl the streets day and night. In every suburb, signs along the road warn robbers they may be shot or seized by private guards. Homes bristle with panic buttons, infra-red sensors, electric fences. Cars have anti-hijack devices, even bullet-proof glass. One inventor even devised flame-throwers against carjackers. No wonder South Africa's private security industry is thriving, even as the economy looks flat.

But is the business under threat? This week a government-sponsored bill to regulate the 5,000-odd companies in the industry passed into committee in parliament. Along with such measures as the creation of a more effective regulatory body, it includes one that drew gasps from the industry: foreign firms will be kicked out. Mululeki George, chairman of the parliamentary committee and a stalwart of the African National Congress (ANC), said on October 1st that “our long-term objective is that there will be no role for foreign companies. All security companies in South Africa must be owned and run and controlled by South Africans.” The bill could become law in a couple of months.

The security industry has caught many eyes. Since 1970, it has seen average annual growth of 30%. A report by CSFB, an investment bank, suggests that as a share of the economy, it is the largest in the world. South Africans spent 11 billion rand ($1.6 billion) last year on security services, or 1.25% of GDP. Americans and Europeans spent less than 0.3%. Moreover, the industry is expected to grow by 12-17% a year over the next five years as insecurity grows. There was a 43% rise in bank robberies in the first eight months of 2001.

Will the government go through with its plans to turf foreigners out? Reg Rumney of BusinessMap, a consultancy, says it would be “insane”. In the past year alone, foreign investors put nearly 1.8 billion rand into the industry as British-based companies, such as Chubb, ADT and Securicor, and a Singaporean one, Secureco, bought up local businesses. It seems reckless, in a country short of jobs and plagued by crime, to ban outsiders from an industry that employs over 280,000 people. South Africa has three private security guards for every uniformed police officer.

Foreign cash is rare in South Africa, an emerging market with a weak currency. Anti-foreigner legislation in the security industry would send a worrying message to all foreign investors. André Gaum, of the opposition Democratic Alliance, claims that 150m rand of foreign investment has been put on hold because of this week's “ludicrous actions by cowboy comrades in the ANC”. British companies are checking if an investment-protection deal between Britain and South Africa signed in 1998 will guard against the new law.

But there are pressures to go ahead. Mr George cites increased security worries after September 11th. The government has long been nervous about armed ex-soldiers and ex-policemen in the industry, who may be hostile to the multiracial administration. Some in the ANC argue that the industry is ripe for “empowerment”, with black-owned companies being given contracts to boost black wealth. That might be easier to do if businesses were locally owned.

More cautious voices could yet prevail once the government realises how the legislation could damage South Africa's investment image abroad. And if doubts grew over the quality of the country's private security? Then expatriates, among the keenest spenders on such services, might take themselves off to a place in less need of flame-throwers.

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Takeovers in Germany

Franconian fisticuffs

Oct 4th 2001 | FRANKFURT
From The Economist print edition

A hostile takeover bid is causing ructions in a corner of Germany

“YOU can of course wait until the value of your FAG shares has risen by 51%. But you'll need to last as long as INA bearings.” Thus INA Schaeffler, a German maker of industrial bearings and car components, tries to tempt shareholders of FAG Kugelfischer, another bearing manufacturer, for which it has made a hostile takeover bid.

The fight is an unusual one. First, it is taking place in Germany. Despite all the talk of watersheds and breaking moulds when Britain's Vodafone swallowed Mannesmann last year, there has scarcely been a hostile takeover since. Second, it is a local derby. FAG, the world's fourth-biggest bearing maker, and INA, the sixth-biggest, are from towns only 70km (43 miles) apart in Franconia, southern Germany. Third, the target is a quoted company, but the bidder is not: INA is family-owned. This bid may not be the last in which a private firm hunts a listed one.

FAG is scarcely ailing. Between 1998 and 2000, pre-tax profits climbed from *euro*26m ($29m) to *euro*81m. Although INA says the two firms would make a good match, FAG's bosses see nothing to be gained. They set more store by a recent alliance with Japan's NTN, the world number three. Indeed, this alliance may be a reason for INA's bid. The Japanese could use their link with FAG to break into the European market for needle bearings, in which INA is strong; buying FAG would snuff out the threat.

Besides doubting INA's industrial logic, FAG criticises its lack of financial information. Like many German family companies, the bidder publishes its turnover (*euro*4.2 billion last year), but keeps profit figures to itself. But how much will this matter to shareholders, when so much cash is on offer? At *euro*11 a share, INA is offering half as much again as the pre-bid share price. Although FAG's management is promising a counter-offer, it has its work cut out. There are rumours that INA already has control of 20% of the shares. Dresdner Bank, the target company's main bank, has backed the offer, and a Dresdner man has quit FAG's supervisory board.

It helps INA that it is offering cash rather than shares, at a time when stockmarkets are weak. So might other listed German companies fall prey to cash-rich private bidders? One possibility is Buderus, a specialist in heating technology, for which Bosch, a huge engineering company owned by a foundation, is said to be mulling a bid. Bosch will not comment. But until a couple of weeks ago, the two had been in friendly talks, from which Buderus walked away with some rude remarks about Bosch. Hermann Scholl, Bosch's chairman, has also said that his company relies too much on automotive technology. Buying a firm such as Buderus would improve the balance.

The worry for bosses of other quoted companies is that FAG and Buderus are not all that cheap. FAG's shares had held their value in a declining market in the year before the bid; Buderus's have been similarly strong. There may be other, better-value bargains for cash buyers. The problem, with the stockmarket and the economy both in such poor shape, is spotting the gold among so much dross.

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Russia's ice-cream market

Drip drop

Oct 4th 2001 | MOSCOW
From The Economist print edition

Tempting but treacherous

SOVIET life offered few pleasures, but ice cream was one of them. Even today, if you can avert your eyes from the gruesome conditions in which it is usually sold (unwrapped, much-handled), traditional Russian ice cream is delicious, thanks to a generous dose of up to 15% dairy fat, more than double what you find in the sweetened gunk sold in the West. Russian children used to get not pocket money, but “ice-cream money”. It still goes a long way: at a wholesale price of around 60 cents a litre (34 cents a pint), Russian ice creams are among the cheapest in the world.

The market is shrinking as fast as an iced lolly on a hot day

But the market is shrinking as fast as an iced lolly on a hot day. New summer delights such as beer and soft drinks are eating into consumers' pockets. There are other difficulties too, particularly for outsiders. Russia is an expensive place to distribute perishable food; and the 200-odd local producers, mostly the offspring of Soviet-era municipal cold stores, enjoy protection. Newcomers face a slew of official and unofficial harassment, ranging from constant visits from the hygiene inspectorate to black propaganda planted in the press about chemicals and bacteria lurking in outsiders' wares.

The only big foreign company that is still active in Russia is Nestlé, which has a large, but not yet profitable, ice-cream factory. Unilever dipped a toe in the water and fled. Baskin-Robbins, part of Allied Domecq, built a huge ice-cream factory in Moscow in 1995, capable of making 40m litres a year, only to close it down four years later, having run up huge debts. A local franchisee now produces 2m litres, using frozen cream from New Zealand, which is cheaper than the Russian variety.

In some other Russian consumer-goods industries there are signs of consolidation and better management. But not in ice cream. Packaging has improved slightly, but producers have no real idea about distribution or branding. The country's biggest ice-cream maker, Moscow-based Ice-Fili, which has about 20% of the 350,000-tonne market, ran an extensive advertising campaign this summer that managed barely to mention either the company's name or its products. Its general director sniffily declines to discuss marketing. That, he says, is for “experts”. Funny that the ice cream still tastes so good.

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Face value

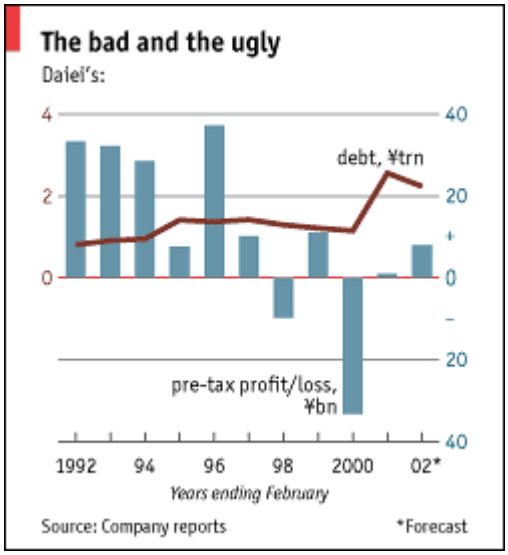
The salvage man

Oct 4th 2001
From The Economist print edition

Can Takashi Hirayama save Japan's worst retailer?

HIS candour is certainly refreshing. Takashi Hirayama, the newish vice-president of Daiei, Japan's largest supermarket chain, cheerfully admits that his company could rank among the world's three worst retailers. Few would disagree. Once an undisputed industry leader, Daiei is now Japan's biggest corporate headache. Thanks to a whopping ¥2.6 trillion ($22 billion) of debt, its interest payments exceed its income. Its unfashionable stores are losing customers by the day. For every lucrative asset it owns, it has dozens of duds.

Last week, Daiei had to call for calm at an emergency press conference, after its shares plunged to an all-time low amid a flurry of bad news. Moody's, a credit-rating agency, had just slashed its rating to Caa1, seven rungs down into junk status. Daiei is barely managing to break even (see chart).



All this has raised doubts as to whether Daiei is any stronger now than it was last year, when it was pulled from the brink of collapse by four of its largest creditor banks. They poured ¥120 billion into the retailer, and have promised some ¥500 billion more. Without their help, Daiei would almost certainly have gone bust. Mycal, a rival supermarket chain with similar problems on a smaller scale, but with fewer banking friends, collapsed last month.

The lifeline from the banks, part of which has already been extended for another year, provides Daiei with much-needed security. Creditors are pinning their hopes on Daiei's three-strong management team, which is the retailer's biggest strength. Unlike Mycal, which earlier this year appointed a former police chief to supervise its restructuring plan, Daiei has picked some of the industry's best salvage men, who are now implementing aggressive cost-cutting measures to ensure that Daiei will at least meet its debt-reduction goals this year.

Of the team, it is Mr Hirayama who has arguably the hardest and most important task. He must bolster Daiei's sales—which have been dropping rapidly—by reinventing its tired stores and products, and reviving disheartened workers. Meanwhile, the new president, Kunio Takagi, a former Daiei man who spent the past decade at Recruit, a publishing company and Daiei affiliate, will try to patch its finances together. Jiro Amagai, the new chairman, is a former bureaucrat from the Ministry of Economy, Trade and Industry. He will provide a link to the ministry, which polices Japan's complicated laws on large stores. All three know how much is riding on their success. More than 100,000 people, including suppliers, count on Daiei for a job. Its creditors, which include the biggest banks, would wobble alarmingly if Daiei went under.

Yet Mr Hirayama, an old Daiei hand who left in 1991 and returned only last January, seems unperturbed by the enormous scale of his task. “Physically, this job is tough. But mentally and emotionally, I'm really happy. I love a challenge,” he beams.

He has proved this before. Several years ago, he built Torius, Japan's biggest shopping centre, in Kyushu in southern Japan. No stranger to adversity, Mr Hirayama helped to pull Daiei out of a spot of trouble in

the mid-1980s, when the group fell into loss for the first time in its history. Some years later, he also turned around UNeed, Daiei's supermarket subsidiary in Kyushu. After he left Daiei, Mr Hirayama set up his own consultancy in Kyushu. His success at UNeed won him many clients, especially retailers looking to revive their sagging businesses.

Fathers and sons

Mr Hirayama, a former university rugby captain, likens his love of uncertainty to the irregular bounce of a rugby ball, which leaves players unsure until the last second whether to attack or defend. Like the oval ball, he tends to confound expectations. In 1991, it was almost unheard of for a top executive such as Mr Hirayama to quit his job, especially after climbing steadily up Daiei's ranks ever since joining as a university graduate. What made his decision even more surprising was that, for most of his career, he had been a favourite of Isao Nakauchi, Daiei's charismatic but dictatorial founder. Mr Hirayama looked upon Mr Nakauchi as a father figure, and left only because “fathers and sons shouldn't fight in public.”

The two men clashed primarily over Mr Nakauchi's old-fashioned management style. Such traditional Japanese methods, Mr Hirayama argues, create passive salarymen who are afraid of making mistakes, and are forever fretting about what their bosses think. He is determined to help Daiei's employees to break that mould. Outspoken and unconventional himself, he claims, unconvincingly, that he might have become just as timid had he not left when he did.

If Mr Hirayama surprised people by leaving Daiei, he astounded them by coming back. Why did he do it, when the company was in such a mess? “It's because I still have Daiei DNA in me,” he explains. He would also, no doubt, love to surprise people once again, by turning Daiei around. To this end, he and Mr Takagi have broken many Daiei taboos. Unable to pull in customers on its own, Daiei has invited rivals, such as Fast Retailing, a successful casual-wear store chain, and McDonald's, to open outlets in Daiei stores.

Daiei has little time to sort itself out: less than a year, reckons Mr Hirayama. Like other troubled retailers before it, Daiei has had to adopt the risky strategy of selling its best assets, such as Lawson, a convenience store, to pay down debt. Mr Hirayama knows that the odds are stacked against him. But he enjoys defying convention and he has learnt to be plucky the hard way. “When I left Daiei ten years ago, 99 out of 100 people stopped speaking to me,” he says. “Nothing can be as frightening as that.”

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Interest rates

How low can they go?

Oct 4th 2001
From The Economist print edition

Central banks have reduced interest rates to their lowest levels for decades. But have they done enough to revive the sickly world economy?

AMERICA'S Federal Reserve cut interest rates by another half-point this week. The federal-funds rate is now 2.5%, down from 6.5% at the end of last year, and is at its lowest in almost 40 years. After recent rate cuts around the world, the average real interest rate in America, Japan and the euro area (the G3) has fallen to its lowest level since the 1970s.

This aggressive monetary easing, combined with a large fiscal stimulus in prospect in America, has led some economists to predict a future upsurge in inflation. Rising long-term bond yields signal that investors are worried about inflation, they claim. However, comparisons with American index-linked bonds suggest that the main worry for investors is not inflation but that the supply of bonds will soar as the government borrows more.

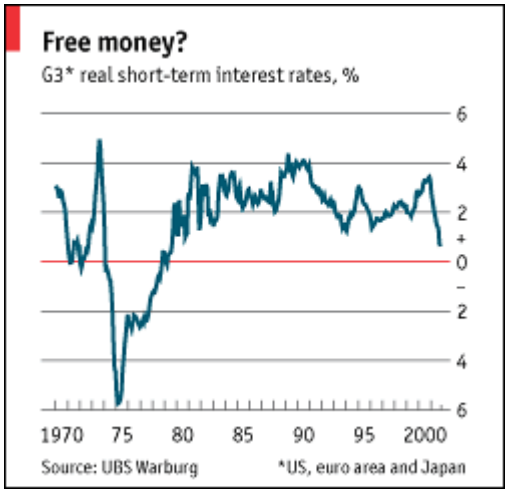
That real interest rates in the big economies are at their lowest for decades may appear to suggest that monetary policy is exceptionally loose. A closer examination, however, shows that this is somewhat misleading. Using headline consumer-price inflation, American real interest rates are now close to zero. But by the Fed's favoured measure of inflation, the core personal consumption expenditure deflator (excluding food and energy), real interest rates stand at almost 1%, well above the lows of previous recessions. Moreover, inflation on all measures is expected to fall again next year, which will push up real interest rates.

Average real interest rates across the G3 are historically low because of the extraordinarily synchronised global downturn. The last time American real interest rates were this low, in the early 1990s recession, real rates in the then booming euro area were 6.5%. Now the euro area and Japan are also in trouble. Surveys this week confirmed that business and consumer confidence have slumped sharply in Europe and Japan as well as America. In *The Economist*'s latest poll of forecasters, GDP growth forecasts for the big economies have been cut dramatically for next year (see article). CSFB now forecasts that global growth in 2002 could fall to its lowest in half a century.

A better way to gauge the tightness of monetary policy is to compare nominal interest rates with nominal GDP growth. An old rule of thumb is that, when interest rates are higher than the rate of growth in nominal GDP, monetary policy is restrictive; when interest rates are lower, policy is expansionary. A crude way to understand this is to see, say, America's nominal GDP growth as, in effect, the average return from investing in America Inc. If the average return as measured by nominal GDP is higher than the cost of borrowing, investment will expand.

A recent analysis by UBS Warburg finds that by this yardstick monetary policy is not particularly loose. In the year to the second quarter, nominal GDP growth in the G3 was 2.7%, roughly the same as the average interest rate. In the fourth quarter, as economies contract and inflation falls, nominal GDP growth could well slow to barely 1%, its lowest since the 1930s. If it does, interest rates need to fall further.

Japan is largely responsible for the dangerously low rate of nominal GDP growth: its nominal GDP has fallen by 2% over the past year, yet nominal interest rates cannot go below zero. But in America too, nominal GDP growth looks likely to fall towards 1% early next year as the economy shrinks. That is alarming. As inflation and nominal GDP growth approach zero, central banks' ability to loosen monetary policy becomes limited, as the Bank of Japan has painfully discovered (see article).



Not only is monetary policy not yet sufficiently loose; it is also possible that, in this downturn, interest rates may be less powerful than usual in spurring demand. Massive excess capacity and the heavy debt burdens of firms and households may discourage new borrowing and spending. The unprecedented nature of the terrorist attack and its impact on confidence may also make consumers even less responsive to interest rates. If so, rates may need to fall by more than in the past to generate enough demand for a recovery.

Two-armed bandits

In recent years, it has become accepted wisdom that monetary policy is more appropriate than fiscal policy for stabilising economies. Monetary policy is much easier to reverse than spending increases or tax cuts, a crucial point given many countries' worrying long-term budgetary positions. This is why Alan Greenspan, the Fed's chairman, has advised caution on a fiscal stimulus. If a big increase in government borrowing pushes up bond yields, it will undermine cuts in short-term rates.

Nevertheless, America is going to get a fiscal stimulus. Fiscal easing from tax cuts equivalent to 0.6% of GDP was already planned before September 11th. Now a further package with a total of up to $130 billion (over 1% of GDP) may be added, tipping America's budget from surplus to deficit. On top of extra defence spending and emergency disaster relief already approved by Congress, there is strong support for more spending and tax cuts.

Bigger tax incentives for investment and a rebate for low-income earners seem likeliest, but there is no guarantee that either would boost spending anytime soon. Firms with excess capacity might not want to invest more and workers could simply save any tax cut. A better idea has been suggested by Alan Blinder, an economist at Princeton University. He proposes that Congress should reimburse states for a temporary reduction in sales tax. This has the advantage that, because it is temporary, it would encourage people to buy now, not later, and it would not damage America's long-term budget position.

At least America starts with a budget surplus. Japan already has a vast deficit, thanks to years of wasteful public-works projects funded in a vain attempt to revive its sick economy. Japan now has little room for a further stimulus. The euro area is also constrained by its needlessly restrictive “stability pact”, under which budget deficits can exceed 3% of GDP only in exceptionally severe recessions.

This rules out significant fiscal stimulus. Indeed, if governments were to meet their intermediate targets for 2002, set in the framework of the stability pact, fiscal policy would need to be tightened in the euro area by an average of 1.5% of GDP next year. But there are no penalties for exceeding these intermediate targets. So, thankfully, Europe's governments have said that they will set them aside and allow automatic fiscal stabilisers to work. Germany's target for 2002 was to reduce its deficit to 1.0% of GDP. Because of slower economic growth, it is now more likely to reach 2.5% of GDP—uncomfortably close to the 3% ceiling. Unless common sense kills the stability pact, Europe will have to rely largely on further monetary easing.

The ECB and the Fed still have ample room to cut rates. Will they? Central banks are by nature cautious. But with inflation relatively low and falling, caution may now be more about ensuring that there is not a depression. The price, if they overdo it, may indeed be somewhat higher inflation in two years' time. But better that than a deep global slump.

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The rising R-count

Rrrrrrrrrecession

Oct 4th 2001
From The Economist print edition

Journalists are writing us into a recession

IT IS time to update our R-word index for America. Using a computer database, we count for each quarter how many stories in the *New York Times* and the *Washington Post* include the word "recession". It is no surprise, given recent events, that the R-count is flashing red.

The Economist's R-word index accurately pinpointed the start of America's recessions in 1981 and 1990. Unlike GDP figures, which are published after a long lag, the numbers are available instantly. Alarm bells were set off, therefore, in the first quarter of this year by a sharp jump in the R-count, to a rate that has previously always signalled that a recession had started. Puzzlingly, the rate dipped in the second quarter. In the third quarter, however, the R-count jumped again: in September it hit its highest since the early 1990s, when America was crawling out of recession.

Nevertheless, America's R-count, even since September 11th, remains well below its peak rate during the recession of the early 1990s. In contrast, our global R-word index, which uses the two most international newspapers, the *Wall Street Journal* and the *Financial Times* (in which it is almost impossible, using a crude computer search, to distinguish between recessions in America or elsewhere), has soared since September 11th, close to its peak of the early 1990s.

One conclusion is that, even if America's recession proves relatively mild, the global recession could be severe as economies around the globe sink in unison. Alternatively, perhaps financial journalists on these two papers, who have to spend more time writing about tumbling share prices than other hacks, are feeling particularly gloomy.

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Afghan finance

Mullah moolah

Oct 4th 2001 | FAIZABAD
From The Economist print edition

These are busy days for money-changers in Afghanistan

EPA

I'll give you a dollar for the lot

NOT everybody in Afghanistan cheered at the attack on the World Trade Centre. “I identified with the people in that building 100%,” says Mohammad Tahir, whose $4,000-a-day turnover makes him the top money-changer in the Faizabad bazaar. “We are in the same profession.”

Faizabad is the provisional capital of the bit of Afghanistan controlled by the Taliban's opponents. At first sight it seems as far removed from global capitalism as it is possible to imagine. There is no financial press (indeed, no newspapers at all), no formal international trade, no banks and no legal framework to speak of.

Look below the surface, though, and the usual rules more or less apply. Mr Tahir is a natural trader, whose eyes glint at the thought of arbitrage opportunities and insider information. Every day he talks rates, news and liquidity to his branch offices in other towns, first cranking the dynamo handle on his ancient, dial-less telephone, then being patched through via a municipal short-wave radio system.

The exchange rate depends on the news, he explains, as a broadcast in Persian by the BBC chirrups in the background. When people think the Americans are going to bomb the Taliban, they buy the local currency, the Afghani. When they think the West may (once again) leave the anti-Taliban opposition in the lurch, there is a flight to American dollars.

As well as trading four foreign currencies (Iranian, Tajik, American and Pakistani), out of a large wooden box, with spreads of less than one per cent, Mr Tahir offers a cheap and speedy system of international money transfer through his office in Pakistan.

After a decade of headlong depreciation, the highest-denomination 100,000 Afghani note is worth about 80 American cents. Adding to the confusion, there are two near-identical versions of the same currency in circulation, both printed at the same place in Russia. The northern money has subtly different serial numbers, and is worth only half as much as the Taliban version. The latter can be used in the north, but not vice versa, reflecting both the Taliban's opposition to outside influences and the even more parlous state of the northern economy.

Barring some locally mined emeralds, rubies, lapis lazuli and salt, northern Afghanistan has little to export (legally). The region cannot feed itself, let alone sell food abroad. Local handicrafts are pretty but unmarketed. There is no central bank: a combined economics and finance “ministry” manages the currency, rather haphazardly in Mr Tahir's view. “I have no idea where this comes from, or how they decide how much to print,” he says scornfully, pointing at a vast stack of crisp new banknotes. “When they need dollars, they just print more Afghanis.”

Drug money certainly plays a role in keeping the place afloat. Foreigners who travel in the region saw lots of opium poppies during the summer. Although forbidden, poppies fetch ten times as much as wheat. Local farmers are as canny in their business as Mr Tahir is in his.

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Financial regulation

Ride the cycle

Oct 4th 2001
From The Economist print edition

Financiers are unhappy about rules forcing them to sell in falling markets

FINANCIAL regulators, busy crafting new Basel rules for bank capital, have been given a timely warning about how perverse such rules can sometimes be—from the insurance industry. Some bank supervisors are worrying that the proposed rules, due to be finalised next year, would force banks to sell assets to raise capital in falling markets, with dire consequences all round.

A dress rehearsal is being played in the insurance industry, which suffered a double blow after September 11th: higher claims and falling asset values. There are fears that insurers may be forced to sell assets, not only to meet higher claims, but also to meet liquidity requirements or accounting rules. Europe's biggest insurers are asking their governments, and the European Commission, to modify solvency and accounting rules that appear to push them into selling shares in a falling market: selling that would drive down prices further and, thanks to the rules, promptly lead to more selling.

Britain's Financial Services Authority (FSA) acted on September 24th to relax rules governing the "resilience" (loss-absorbing capacity) of equity portfolios owned by life-insurance companies. In future, resilience will be evaluated using "professional judgment" rather than the former "stress-test" of how a portfolio would fare in the event of a 10% fall in share prices. The aim is to prevent forced selling by insurers trying to pass the test—though investors might wonder about the value of a test that is meant to protect them but is abandoned as soon as it bites.

British insurers have an average of 58% of their portfolios invested in equities, compared with the European average of 37%, according to 1999 figures, so their lobbying for relief is understandable. But French, German and Italian insurers are also urging regulators to iron out tax or reporting anomalies. The French fret over having to report large equity losses on December 31st, which will not be offset by gains on bonds. The Germans claim that a two-year-old tax reform encourages them to realise losses now, rather than later. Insurers fear that such rules may damage public confidence in the insurance industry and markets alike, though there is a large dose of self-interest at work too.

In America, insurance experts have played down fears of damaging equity sell-offs, although A.M. Best, an insurance rating company, has said that insurers could face liquidity problems from redemptions "if policyholders lose confidence in life and annuity insurers." Insurers with significant investments in hard-hit industries such as airlines could also face liquidity pressure. But not all insurers, it seems. On September 26th, Ben Mosche, chairman of MetLife, a life-insurance company, boasted to a congressional hearing that his company had just invested $1 billion in equities "because we have enormous confidence in the resilience of our country and its economy."

Such bullishness might, however, be beyond the power of a bank saddled with the proposed new Basel capital rules. These rules want bank capital to track more closely banks' own calculations of the risks they run. Such a risk-sensitive measure would tend to relax in good times and demand more capital in bad. That could force banks to call in loans and sell assets, exacerbating an economic downturn. This phenomenon, dubbed "pro-cyclicality"—with the rules tending to reinforce cyclical trends—is the "single biggest outstanding issue" in the unfinished Basel rules, argues Michael Foot, a managing director at the FSA.

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About sponsorship

Exchanges

Lust for Liffe

Oct 4th 2001
From The Economist print edition

Will a takeover of Liffe kick off a series of mergers?

AP

Dedicated follower of fashion

SINCE she became chief executive of the London Stock Exchange (LSE) last February, Clara Furse has made little secret of her ambition to take over Liffe, the London International Financial Futures and Options Exchange. She finally wrote to Liffe on September 28th suggesting a deal: rumour has it that she is offering some £350m ($515m). Unless one of her competitors comes up with a better offer, she should find a willing partner in the resuscitated derivatives exchange.

As with its belated move to order-driven trading and its decision to demutualise, the LSE's stab at combining London's equity and derivatives exchanges is overdue. Most other European exchanges, including Paris, Frankfurt, Milan and even Vienna, combined equity and derivatives exchanges long ago.

Done well, such mergers make good business sense. They cut trading costs, because equity and derivatives exposures, and thus margin requirements, can be netted off against each other. If, as is likely, this saving then leads to greater trading volume in each security traded on the exchanges, liquidity will increase. A more liquid market further reduces trading costs, increasing volumes, and so on.

Yet the much-ballyhooed cost savings and synergies of past mergers of derivatives and equity exchanges came at a price. A new, or much modified, trading platform was required to unite the merged exchanges. In this case that would probably mean adapting either the LSE's trading system, SETS, or Liffe's Connect. Both are newish, and they use quite different technology. But building an entirely new system would be even more expensive and time-consuming than adapting existing ones. “Short-term synergies between the LSE and Liffe are not obvious,” comments Manus Costello, an analyst at Merrill Lynch.

The LSE may be best placed to acquire Liffe, but it is likely to face stiff competition from other exchanges. Under Sir Brian Williamson, who took over in 1998 after its reluctance to scrap its traditional trading floor had put its survival in doubt, Liffe has become a much-coveted asset.

Two of the LSE's European rivals, Deutsche Börse and Euronext, have pots of cash after their flotations this year. Deutsche Börse likes Liffe's money-market products and its technology. It already trades single-stock futures in a joint venture with Liffe. Euronext (formed by a three-way merger between the Brussels, Paris and Amsterdam exchanges) is interested in upgrading its own weak derivatives market. From across the Atlantic, Nasdaq, the tech-heavy American stockmarket, and the Chicago Mercantile Exchange are both eager to establish themselves in Europe. A bidding war could easily push the price for Liffe to £400m or even more.

Whichever exchange captures Liffe will be in a strong position to lead the expected consolidation of European stock exchanges to come. Antoinette Hunziker-Ebneter, chief executive of virt-X, a virtual trading platform that linked the Swiss stock exchange with London-based Tradepoint, thinks consolidation of derivative exchanges is mostly done, and that equity markets will be next. Ultimately two or three big trading platforms will dominate in Europe, she says.

After Liffe, which exchanges will be next? A new rapprochement of London and Frankfurt, which tried and

failed to merge last year, is unlikely. The LSE could take over Crest, the equity settlement agency, or the London Clearing House, part-owned by Liffe. Yet that would go against the LSE's strong bid to keep settlement organisations separate from exchanges in Europe. Teaming up with Euronext would not be simple. Cross-border mergers are tricky; Euronext is an imperfect combination of separate entities in three countries. That leaves virt-X. Neither Ms Furse nor Ms Hunziker-Ebneter are ruling out a merger.

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Banking

Hello Wall Strasse

Oct 4th 2001 | NEW YORK
From The Economist print edition

Deutsche Bank lists in New York

ONLY a month ago, listing on the New York Stock Exchange was an excuse to get a rock band to perform on Wall Street, or engage in some other publicity stunt. Reflecting a less frivolous time, Deutsche Bank quietly debuted on October 3rd, having cancelled an elegant dinner at the SoHo branch of the Guggenheim Museum and decided not to fly a German flag over the NYSE. Instead, it gave a day's worth of trading profits, $9m, to widows and orphans of people killed in the attack on the World Trade Centre, plus another $5m to other charities.

Deutsche, Germany's biggest bank, already has a huge presence in New York through its acquisition of Bankers Trust and Alex.Brown in 1999, as well as its purchase on September 24th of Zurich Scudder Investments, a large mutual-fund company. Deutsche's offices were badly damaged in the World Trade Centre attack.

Listing on the NYSE required Deutsche to become far more transparent in its accounting, a cost that its boss, Rolf Breuer, believes is outweighed by the benefits. These include access to the world's most liquid capital market, an enhanced brand, and a bigger shareholder base. Its shares will be a currency for acquisitions (rumours continue to point to Merrill Lynch as a target, though Mr Breuer is evasive on this) and allow options to be given to American employees. He expects worldwide trading in Deutsche shares to consolidate from the ten exchanges on which it is now listed to maybe three.

The flipside of this will be more pressure on Deutsche to deliver shareholder value. On its pre-listing road show, American institutional investors were quick to question its high cost structure and its low returns from retail and private banking, admits Mr Breuer.

Deutsche has built up large holdings in industrial companies. This is now broadly believed to be a poor use of capital. Mr Breuer says he would like to liquidate positions in the companies that are public—more feasible now, thanks to reforms to Germany's capital-gains tax—but not at today's low prices. Mr Breuer should remember that American shareholders are an impatient bunch compared with their German counterparts. He should not wait too long to deliver the promised goods.

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About sponsorship

Short-selling

UnAmerican activities

Oct 4th 2001
From The Economist print edition

Short-sellers are once more under attack. Wrongly

VULTURES, hyenas, corporate undertakers, profiteers. These are just some of the terms of abuse hurled at short-sellers, people who try to make money by selling shares they do not own and buying them back later at a lower price. For the alleged crime of causing stockmarkets to tumble after the attack on the World Trade Centre, short-sellers now stand accused of lack of patriotism, to boot. There is even an effort, says one American short, to damn them by association with Osama bin Laden, whose network is suspected of shorting the shares of airlines and insurers, exploiting inside knowledge.

Paranoia? Perhaps. But people in authority, who should know better, seem to be listening to the rising din of populist cries against short-sellers. In America John LaFalce, a member of the House Financial Services Committee, has written to the Securities and Exchange Commission (SEC), demanding that it consider inhibiting short selling. After a private meeting with Britain's Financial Services Authority, several institutions have said that, to curb short-sellers, they will stop lending shares. Most institutional investors, including pension funds, lend their shares through custodians for various purposes, including short-selling, in return for a fee. It is a lucrative business, unlikely to stop for long.

Most shorting aims to hedge “long” positions in shares, and does not drive down prices overall. Giuseppe Ciardi, a manager of a “long-short equity” hedge fund in London, is currently short the stock of Banque Nationale de Paris and long that of Crédit Lyonnais. Although this may hurt the shares of BNP, it exerts little or no downward pressure on the overall market, which is the main claim of opponents of short-selling, as shares in Crédit Lyonnais should rise by a matching amount.

For individual shares, aggressive shorting can force down the price, but it is a risky game. Practitioners take a lonely stand against the weight of most of the world's money, which is typically bullish. If the price of a shorted share rises, the short seller still has to buy and deliver it whenever the lender wants it back. If other funds have gone short and need to buy back as well, there will be a “short squeeze”, pushing the price up further and causing even more pain to the shorters. A long investor, on the other hand, can take a more relaxed approach to exiting his position, unless he has borrowed to buy shares, in which case his creditors may apply pressure when the share price falls.

Pure shorts, who take only short positions, have long been a rare breed. The long bull market has made them even scarcer. Their bets against particular shares, often based on sound fundamental analysis, turned against them as the rising market carried everything, however dubious, upwards. Most pure shorts today think of themselves as righteous unearthers of “fads, failures and frauds.” A triumph for short-sellers was the delisting from the Nasdaq stockmarket in August of AremisSoft, a software supplier now being investigated by the SEC for alleged accounting irregularities.

Short-sellers provide much-needed liquidity to the markets, by selling shares to needy buyers and by buying falling shares from would-be sellers. They help to make it harder for speculative bubbles to form—though not impossible, as recent years have shown. Perhaps the rise of Internet shares would have been less exuberant had there been more shorters. Dotcom firms floated only small chunks of their shares, which shot up partly thanks to restricted supply. “It was impossible to borrow the stock to short,” says Mr Ciardi.

There is, indeed, a case for making life easier for short-sellers, not harder. Some countries, such as Malaysia, actually ban short-selling. Plenty of others restrict it. In 1999 the SEC invited comment on whether it should amend its “uptick” rule, imposed during another round of short bashing after the crash of 1929. Shares can be sold short, the rule says, only if the previous price move was upwards. Although American shorts can evade this by trading in Europe, fairness demands that they should get equal

treatment to their more numerous long-only counterparts. It would be better to scrap the uptick rule than to add more restrictions.

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Investment strategies

The secret of Yale's success

Oct 4th 2001 | NEW YORK
From The Economist print edition

The university's endowment fund has done remarkably well

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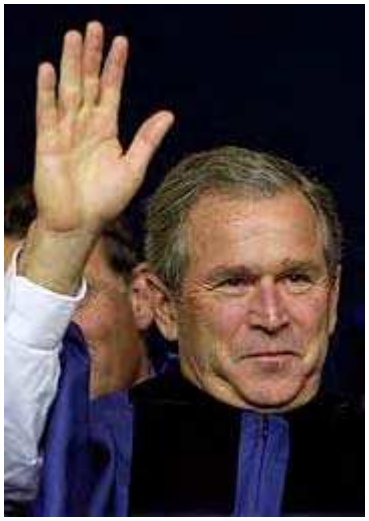

Hands up if we should short Microsoft

GIVEN the wretched recent performance of stockmarkets, any diversified fund that has made money is doing well. For months, there have been rumours of something particularly unusual going on at Yale University's $11 billion endowment, which has long pursued a quirky strategy that largely shunned publicly traded shares for illiquid assets such as venture capital.

Yale sometimes trumpets the results of its endowment. This year it was unusually quiet. It has recently made available, but only on request and without comment, its performance for the year ending June 30th: up by 9.2%. That is half its average rate of return achieved over the past decade—but it is arguably a far more impressive number. According to Morningstar, a research firm, in the same period a broad portfolio of American shares would have lost 15%, and of global shares 24%. American mutual funds that invested in both shares and bonds lost, on average, 2%.

David Swensen, who manages the endowment, was quite chatty about the composition of the portfolio before the start of the fiscal year, revealing that along with a huge stake in venture capital, it was heavily invested in junk bonds and emerging-market securities. All three categories have been beaten up this year. So how did Yale do so well?

Market rumour has it that Mr Swensen hedged his huge venture-capital holding by placing a massive short position on publicly traded technology firms, which he kept during brief rallies before cashing in. Mr Swensen declines to talk about this. It is easy to see why, if the rumours are true. Short-sellers were unfairly blamed for the crash of 1929 and are under attack again. Mr Swensen may fear a backlash. For an Ivy League university that is the president's *alma mater* to seem to be betting against America may rub folk up the wrong way. Some bets may even have been short positions in firms run by Yale alumni.

Yale's minimalist reporting standards save Mr Swensen from daily public scrutiny and criticism. That may have made shorting easier, and Yale richer.

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Economics focus

A yen for change

Oct 4th 2001
From The Economist print edition

Japan's central bankers want a weaker yen. That is easier said than done

CENTRAL banks around the world have been busily wielding their monetary-policy weapons in recent weeks in an effort to counter a widely expected recession. After the terrorist attacks last month, the Federal Reserve and the European Central Bank were quick to cut nominal interest rates and to add liquidity. In Japan, where the economy is entering its second decade of stagnation, the rescue effort was less ambitious, aiming mainly at holding down the yen. Yet even that is a formidable challenge.

A rising yen is the last thing Japan needs. The country's economic miseries are already myriad, including deflation, monetary and fiscal policies that seem incapable of boosting demand, and a financial system saddled with bad debts. An appreciating currency might be the final blow to its fragile economy. At the least, a stronger yen would make imports cheaper and exports dearer, adding fuel to the economy's already roaring deflationary fire. Instead, the yen would need to fall by almost 10% to give a boost to manufacturers, even if only for the short term, according to Goldman Sachs.

The yen's last big surge occurred during the financial crisis in 1998. Since early 2000, the yen had been steadily depreciating—until September 11th, when it spiked up by more than 2% against the dollar. That led the Bank of Japan and the Ministry of Finance to intervene in the currency markets. Since September 11th, they have sold more than ¥3 trillion ($25 billion), hoping to keep the yen above 120 to the dollar.

A lot of fuss has been made over the “unsterilised” character of these interventions, because they seem to signal a new, arguably long overdue, willingness to loosen monetary policy. When a central bank wants to move exchange rates, it can buy or sell domestic and foreign bonds on the open market, depending on the direction that it wants its currency to take. One potential side-effect of this is to cause the money supply to rise or fall. For example, if the Bank uses its yen to buy dollar assets, it can flood the money market with new yen in exchange for the dollars it takes in.

If it wants to offset this, it can mop up the extra liquidity by selling yen-denominated securities, neutralising the impact on the money supply, producing what is called a “sterilised” intervention. But the Bank claims—though some economists suspect they are exaggerating the extent of it—that recent interventions have been of the “unsterilised” variety. That would mean that it has let the extra money stay in the system, something the Bank has not previously allowed since 1945.

Looser monetary policy usually results in a weaker currency: more yen should mean cheaper yen. Also, as returns on short-term domestic securities fall relative to foreign ones, investors may move their money abroad. Yet the yen seems to be defying these foreign-exchange fundamentals.

Japan's massive current-account surplus, the rich world's largest, is one big reason. A country such as Japan, which invests its current-account surplus abroad, is quite likely to see its currency appreciate in a crisis. As risk-aversion increases, investors seek shelter at home, bidding up the domestic currency. Japanese investors, who have been burned by previous punts in foreign markets, from Eurobonds to New York property, were especially skittish even before the terrorist attacks. Alas, for those who want a weaker yen, the Japanese have a lot of assets to call in, with the equivalent of over 25% of GDP invested abroad—more than any other country.

Some of the pressure on the yen, however, owes as much to the horrible condition of Japan's banks as to a declining appetite for risk. In an effort to spruce up balance sheets and to meet new capital requirements that took effect on September 30th, many Japanese banks have been selling foreign investments and bringing home the cash. This may continue, or even accelerate, if domestic investments

continue to flag.

In the long run, the yen's biggest enemy is Japan's worsening price deflation, which now runs at about 1% a year. Deflation gives Japan painfully high real interest rates even though nominal rates are, in effect, zero. The recent interest-rate cuts by G7 countries only hurt the yen's relative position: since Japan cannot trim rates any further, cuts by other countries make the yen even more appealing by comparison. The solution for the yen, as for the Japanese economy as a whole, is to halt deflation.

Too little, too late

While the central bank, with its much-trumpeted unsterilised intervention, may be attempting to signal a new vigour in its monetary easing, this signal lacks the credibility needed to defeat deflation. After responding well to the announcement of a new policy initiative, economists are starting to question whether the Bank's bite lives up to the bark. There is uncertainty both about how long the new liquidity will stay in the system and, more fundamentally, whether the intervention was as unsterilised as first thought. Certainly, the Bank has not moved explicitly to a new policy of expanding the money supply.

Some Japanese lawmakers have begun to push for an inflation target, a policy tool that has been successful in many other rich countries over the past decade, albeit in keeping inflation down, not eliminating deflation, a less common ailment that is, arguably, harder to cure. But there is at least one precedent. Takatoshi Ito, co-author of a recent book*, points to the example of the Swedish central bank, where inflation targeting was enacted amid the deflation of 1931.

In the absence of broader policies to end deflation, which would almost certainly cause the yen to weaken, the Bank is likely to have to intervene a lot more to keep its currency down. But whether unsterilised or not, these interventions will not be enough to end deflation, so they may equally not be enough to constrain the yen's rise against the dollar. The Bank's actions in the currency markets, however encouraging they seemed at first, may be just further evidence of the tendency of Japan's policymakers to avoid tackling real problems head-on.

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* “Financial Policy and Central Banking in Japan” by Thomas Cargill, Michael Hutchison, and Takatoshi Ito. The MIT Press.

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Nuclear, chemical and biological threats

The terror next time?

Oct 4th 2001
From The Economist print edition

Just how difficult would it be for terrorists to get hold of weapons of mass destruction?

Magnum

Get article background

IN THE aftermath of the terrorist attacks on New York and Washington, those whose job it is to think the unthinkable were conscious that, for all the carnage, it could have been far worse. Fuel-laden aircraft slamming into buildings was bad enough. But the sight of some among the rescue workers picking over the debris with test tubes, followed by the sudden decision to ground all of America's crop-spraying aircraft for several days, pointed to an even more horrible possibility. Were terrorists with so little calculation of restraint to get their hands on weapons of mass destruction—whether chemical, biological or even nuclear—they would surely use them. How real is that threat?

It is certainly not new. Among one of many warnings from American think-tanks and government agencies in recent years, a report released last December by the CIA's National Intelligence Council concluded baldly that, when it came to chemical and biological weapons in particular, “some terrorists or insurgents will attempt to use [these] against United States interests, against the United States itself, its forces or facilities overseas, or its allies.” Governments in America and Europe worry that Osama bin Laden, the head of al-Qaeda, the terrorist network thought to be behind the September 11th attacks, may already have access to such weapons, and be planning to use them in response to any American military strikes. The World Health Organisation has called on governments around the world to be better prepared for such an eventuality.

For groups prepared to engage in the kamikaze tactics seen on September 11th, the easiest way to spread poisonous or radioactive materials might simply be to fly into repositories of them, or to use lorries full of them as suicide bombs. As Amy Smithson of the Stimson Centre in Washington, DC, observed in a report released last year, there are some 850,000 sites in the United States alone at which hazardous chemicals are produced, consumed or stored. The arrest in America last week of a number of people who were found to have fraudulently obtained permits to drive trucks that carry such hazardous loads looks like a worrying confirmation of such fears.

The easiest way to spread poisonous or radioactive materials might be to fly into repositories of them

It is, nevertheless, likely that terrorist groups around the world are working on more sophisticated approaches to mass destruction than merely blowing up existing storage facilities, or hijacking lorry-loads of noxious substances. Mr bin Laden himself has, in the past, called it a “religious

duty” to acquire such weapons. He is reported to have helped his former protectors in Sudan to develop chemical weapons for use in that country's civil war, and has since boasted of buying “a lot of dangerous weapons, maybe chemical weapons” for the Taliban regime in Afghanistan that now harbours him.

It's harder than you think

Even for determined terrorists, however, merely getting hold of chemical, biological or nuclear materials is not enough. Do-it-yourself mass destruction—whether of a nuclear, chemical or biological variety—is far from easy (see article). First, you have to acquire or manufacture sufficient quantities of the lethal agent. Second, you have to deliver it to the target. And third, you have either to detonate it, or to spread it around in a way that will actually harm a lot of people.

The difficulties in doing all these things are illustrated by an attack carried out in 1995 on Tokyo's underground railway. Aum Shinrikyo, a Japanese cult, released a potent nerve agent called sarin on five trains. The intention was to kill thousands. In fact, only 12 people died, and some 40 were seriously injured—bad enough, but no worse than the casualty list from a well-placed conventional bomb.

The cult's researchers had spent more than $30m attempting to develop sarin-based weapons, yet they failed to leap any of the three hurdles satisfactorily. They could not produce the chemical in the purity required. Their delivery mechanism was no more sophisticated than carrying it on to the trains in person in plastic bags. And their idea of a distribution system was to pierce those bags with umbrella tips to release the liquid, which would then evaporate.

The attack, in other words, was not a great success. Yet, of the three classes of weapon of mass destruction, those based on chemicals should be the easiest to make. Their ingredients are often commercially available (see table). Their manufacturing techniques are well known. And they have been used from time to time in real warfare, so their deployment is also understood.

Recipes from hell

Commercial applications of chemical-weapons precursors

Type of chemical agent	Commercial uses of the chemical ingredients
Mustard gas	Lubricant additives; ballpoint-pen ink; manufacture of plastics, paper and rubber; chlorinating agents; photographic-developing solutions; textile dyes; pesticides; engineering plastics; cosmetics; detergents; metal refining; dye manufacture; pharmaceuticals; insecticides; waxes and polishes; toiletries; cement additives; synthetic resin
Tabun	Plasticisers; petrol additives; hydraulic fluids; insecticides; flame retardants; pharmaceuticals; detergents; pesticides; missile fuels; vulcanisation of rubber; extraction of gold and silver from ores
Sarin	Flame retardants; petrol additives; plasticisers; paint solvents; ceramics; antiseptics
Soman	Lubricant additives; surfactants; cleaning and disinfectant for brewery, dairy and other food-processing equipment
VX	Organic synthesis; insecticides; lubricating-oil additives; pyrotechnics

Source: “Ataxia:The Chemical and Biological Terrorism Threat and the US Response” by Amy Smithson, Stimson Centre, Washington, DC

Biological weapons are trickier; and nuclear weapons trickier still. Germs need to be coddled, and are hard to spread satisfactorily. (Aum Shinrikyo attempted to develop biological weapons, in the form of anthrax spores, but failed to produce the intended lethal effects.) Making atomic bombs is an even greater technological tour-de-force. Manufacturing weapons-grade nuclear explosives (“enriched” uranium, or the appropriate isotopic mix of plutonium) requires a lot of expensive plant. Detonating those explosives—by rapidly assembling the “critical mass” needed to sustain a chain reaction—is also notoriously difficult.

Joint ventures

Terrorist groups working from first principles are thus likely to run into formidable obstacles if they want to get into the mass-destruction business. Nevertheless, there may be ways round these. One quick fix would be to buy in the services of otherwise unemployed or ill-paid weapons specialists from the former Soviet nuclear-, biological- and chemical-weapons establishments. At least some of these people are known to have washed up as far afield as Iran, Iraq, China and North Korea, but none has yet been directly associated with any terrorist group.

In an attempt to reduce the risk of this happening, the United States has, over the past ten years, spent more than $3 billion dismantling former Soviet nuclear weapons, improving security at Russia's nuclear storage sites, and keeping former weaponeers busy on useful civilian work. But, as Ms Smithson points out, only a tiny fraction of this money—itself a drop in a bucket when measured against the scale of Russia's sprawling weapons complex—goes towards safeguarding chemical and biological secrets. And even the nuclear side of things has sprung the odd leak.

Over the past ten years there have been numerous attempts to smuggle nuclear materials out of the former Soviet Union. There have been unconfirmed suspicions that Iran, for one, may have got its hands on a tactical nuclear warhead from Russia. So far, though, police and customs officers have seized mostly low-grade nuclear waste. This could not be turned into a proper atomic bomb, but with enough of it, a terrorist group might hope to build a “radiological” device, to spread radioactive contamination around (see article). Fortunately, the occasional amounts of weapons-grade stuff that have been found so far fall short of the 9-15kg of explosive needed for a crude but workable bomb.

Theories of deterrence

Yet even if a group got hold of enough such explosives, it would still face the hurdle of turning them into a weapon. Hence the most effective way for a terrorist group to obtain one would be to find a sponsoring government that is willing to allow access to its laboratories or its arsenal.

After the Gulf war, UN special inspectors discovered that Iraq had been pursuing not one but several ways to produce weapons-grade material, and had come within months of building an atomic bomb. The effort, however, is thought to have taken a decade and to have cost Saddam Hussein upwards of $10 billion. Much of this was spent on acquiring the bits and pieces needed from foreign companies—sometimes through bribery, sometimes through deception.

In similar ways, he amassed the materials and equipment, much of it with legitimate civilian uses in fermentation plants and vaccine laboratories, for his vast chemical- and biological-weapons programmes. Although most of Iraq's nuclear programme had been unearthed and destroyed, along with much of its missile and chemical arsenal, the inspectors were convinced, when they were thrown out of the country in 1998, that important parts of the biological effort remained hidden.

America's list of state sponsors of international terrorism makes troubling reading

A glance at the list of state sponsors of international terrorism maintained by America's State Department makes troubling reading. Most of the seven countries included—Iran, Iraq, Syria, Libya, Cuba, North Korea and Sudan—have chemical weapons already. Five are suspected of dabbling illegally in the biological black arts, and several have covert nuclear-weapons programmes, too. America's Department of Defence estimated earlier this year that more than two dozen countries have already built weapons of mass destruction, or else are trying to do so.

So far, there is no evidence that any of these governments has helped terrorist groups to acquire such deadly goods. That may, partly, be because of widespread moral revulsion against their use. But self-interest on the part of the states involved is also a significant factor. It is one thing to give terrorist groups financial and logistical support and a place to hide—a favoured tactic of governments on the State Department's list as a deniable way of furthering their own local or regional ends. It is quite another to share such awesome weapons with outfits like al-Qaeda, which no government can fully control.

On top of that, since the September 11th attacks, American officials, from the president down, have gone out of their way to emphasise that not only the terrorists involved in any future assaults, but also the states that shelter them, can expect to find themselves in the cross-hairs.

States are more

Iraq has been the worst offender when it comes to wielding any of these weapons. It used chemical weapons in its war with Iran and in attacks against

its own Kurdish population. Yet Saddam Hussein's failure to use his chemical and biological-tipped missiles, or the radiological weapons he also had, against western-led coalition forces during the Gulf war showed that, even when morality plays little part, deterrence can still work. America had made clear that, if he had deployed these weapons, he would have brought down massive retribution on both his regime and his country.

“deterrable” than Mr bin Laden's network. But are they deterrable enough?

The big distinction between the dangers of states obtaining such weapons and the danger of terrorists getting their hands on them, argues Gary Samore of the International Institute for Strategic Studies, in London, is precisely that, however hostile they may be, states are more “deterrable”. Mr bin Laden's network has shown that it will stop at nothing. But are states such as Iraq and North Korea, which operate in other ways largely outside international law, deterrable enough to prevent them lending a secret helping hand to a group like Mr bin Laden's?

Of intelligence and imagination

America's defence secretary, Donald Rumsfeld, argued this week that it takes no “leap of the imagination” to expect countries harbouring terrorists to help them get access to weapons of mass destruction. Testimony from the trial of four bin Laden operatives convicted earlier this year for the August 1998 bombing of America's embassies in Kenya and Tanzania revealed that their past military interest in Sudan went beyond helping the regime make chemical weapons for its own war. In one case, Mr bin Laden was attempting to purchase uranium via intermediaries.

Meanwhile, intelligence officials trying to assess the range of threats they now face worry that Iraq's past military links with Sudan may have been no coincidence either. In 1998 America bombed a Sudanese pharmaceutical plant which it said showed traces of a precursor chemical for VX, a highly potent nerve gas that inspectors believe Iraq had put into weapon form. Some observers speculate that, even if Sudan's denials that it was manufacturing any such stuff are true, the country may have served as a trans-shipment point for supplies to Iraq. Might some weapons assistance have flowed the other way, possibly reaching Mr bin Laden's network? Iraq denies it has had anything to do with Mr bin Laden, but there have been unconfirmed reports that one of the New York hijackers met a senior Iraqi intelligence official earlier this year in Europe.

Yet even if no direct link is ever proved between a reckless foreign government and last month's terrorist attacks on America, western officials have long fretted that groups such as Mr bin Laden's will be able to exploit emerging new patterns of proliferation to gain access to nuclear, chemical and bug bombs. Despite attempts by western-sponsored supplier cartels—the Missile-Technology Control Regime, the Nuclear Suppliers Group and the Australia group, which tries to track the trade in worrying chemicals or biological agents—the number of such suppliers has expanded over the past decade. Countries that were once entirely dependent on outside help for their covert weapons programmes, mostly from Russia and China, are now going into business themselves.

This is particularly disturbing in the context of the third obstacle to the use of these weapons: delivery. Working from original Russian Scud missile designs, North Korea has created a thriving missile- and technology-export business with Iran, Pakistan, Syria and others in the Middle East. Iran, in turn, has started to help Syria and possibly Libya (which had past weapons ties with Serbia and Iraq) to improve their missile technology. Egypt is still building on the expertise developed by a now-defunct missile co-operation programme with Argentina and Iraq.

It is unlikely that such ballistic-missile technology would find its way into terrorist hands any time soon. But two things are true of almost all technologies: as the years pass, they get cheaper, and they spread. Even if there is no immediate threat, it may eventually not be just hijacked aircraft that are flying into places that terrorists have taken a dislike to. And their “warheads” may consist of something even worse than aviation fuel.

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The weapons of choice

Old scourges and new

Oct 4th 2001
From The Economist print edition

Not easy to make, but not impossible either

Get article background

THE world's first experience of weapons of mass destruction came in 1915 on the western front, when German troops released liquid chlorine from thousands of pressurised cylinders, letting the resulting gas drift in clouds over enemy lines. **Chemical weapons** have since been outlawed, but there are lots of easily accessible chemicals—including pesticides and fertilisers—that can do harm. Among the various blister, blood, choking and nerve agents, the latter, which include sarin and VX, are the most lethal. Yet it needs lots of chemical agent to create lots of casualties. Depending on the weather, as much as 90% of the stuff that a terrorist might try to disperse in the open, either as droplets that can kill on skin contact or vapour that is lethal when inhaled, would have little effect.

Biological weapons go back at least to medieval times, when besieging armies tossed plague-infected corpses over city walls in an effort to spread disease. Modern biological agents are far more lethal than even the most toxic chemical agents, though their effects can take days to appear. This makes them ideal terror weapons against civilians. But they are harder to use effectively. A terrorist would need to find the right lethal strain of a bacterium, such as anthrax or plague, and maintain its purity and virulence through processing, loading into weapons and dispersal. Since such organisms need to penetrate deep into the lungs, they must be dispersed in a fine spray. An exploding warhead could do that, but would also destroy much of the agent. A crop-duster with the right modifications to its tanks might do better.

The most worrisome biological agent, however, is smallpox. This is a virus, rather than a bacterium, and there are only two official repositories of it, in America and Russia. But others may hold illicit stocks. Because the disease was eradicated 20 years ago, few people have immunity and it could spread quickly. The trouble for terrorists is that it is no respecter of borders either.

Poisons manufactured by bacteria, such as botulinum toxin, may be more suitable for terrorism. These are, in effect, chemical weapons of biological origin. That makes them easier to handle, and means they kill immediately, rather than by growing inside the victim.

The miniaturisation technology required to deliver a small nuclear bomb would be beyond most terrorist groups. **Radiological weapons** are not: by shrouding a core of conventional explosive in plenty of radioactive material, contamination could be spread over a wide area. Though it would need heavy lead shielding during transport, such a device could easily be stashed in a truck, or even a suitcase.

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About sponsorship

Geopolitics and terrorism

No, realists can be optimists too

Oct 4th 2001
From The Economist print edition

Pointing out that "the end of history" hasn't happened doesn't require dropping into hyper-pessimism

The Tragedy of Great Power Politics.
By John J. Mearsheimer.
Norton; 555 pages; $27.95 and £22

TO MANY people, the title of this book will bring a sharply raised eyebrow. In the new, post-September 11th world, do "great-power" relations still matter; isn't "the tragedy" now being enacted on a different stage? The answers are: yes, they do, and no, it basically isn't. John Mearsheimer, a professor of international relations at the University of Chicago, has written a sensible if somewhat over-dark book, and the arrival of mega-terrorism does not destroy his argument.

His target is the optimistic view of geopolitics that grew up after the cold war's end in 1989. He demolishes all the main components of that happy vision.

The "end of history" is not in sight, even if it were true (which it probably isn't) that everybody will before long be living in free-market democracies. There is not going to be a "world government"; nation-states remain the chief shapers of world politics, not the grey, relatively powerless international institutions they have created. A more prosperous world will not necessarily be a peaceful one; states do not fight each other only for money. And it is not true that democracies, at any rate, will never fight one another; they may sometimes be cautiously slower to go to war, but national pride and clashing interests can get democracies too hitting each other.

To replace this punctured illusion, Mr Mearsheimer offers a stern, perhaps excessively stern, version of realist pessimism. Power is wielded by states. States fear each other, and the more powerful they are—in population, wealth and military clout—the more the others fear them. Each state has to look after itself; there is no higher authority it can call upon for help, no number 911 it can telephone (999 to British readers) to bring in the global police.

This is bleak enough. Mr Mearsheimer makes it even bleaker by explaining that he disagrees with the "defensive realism" proposed, say, by Kenneth Waltz in his "Theory of International Politics" (1979), which holds that states will be happy if they can preserve a balance of power that keeps them more or less safe. Mr Mearsheimer prefers "offensive realism".

He believes that any given state's uncertainty about what its rivals might be up to, and its fear that it will not be safe until it is top dog in its own part of the world, push it into a constant struggle for at least regional hegemony. The only serious constraint on the struggle for hegemony is "the stopping power of water", the fact that land armies—still, in Mr Mearsheimer's view, the decisive sort of military power—find it hard to move across the oceans. The world remains anarchically violent.

There are problems with this stark assessment; but they do not include the latest eruption of terrorism. The attacks on New York and Washington on September 11th were a shock because of the way the terrorists worked: their polished organisation, their ability to turn airliners into bombs, the linking of suicide and mass murder. But they were still operating, in the end, within the state power structure that Mr Mearsheimer is talking about.

Terrorists need physical places to do their planning, their training, their manipulation of the money markets. These places may be tiny, movable and hard to detect. But they are still almost certain to lie within the borders of a known state. A ship on the high seas would be hopelessly vulnerable; we do not yet have satellite-borne terrorists. The government of that known state can either admit it is powerless to control them, in which case it is confessing its lack of sovereign power, and the necessary anti-terrorist action can legitimately be organised by other countries; or it can say that it does not want to control them, in which case it is in effect offering them its protection, and itself becomes a legitimate target of the anti-terrorist action. These new terrorists are using spectacularly new methods but they are, in basic geopolitics, no different from the pirates of the Barbary Coast.

There are, however, two genuine qualms about Mr Mearsheimer's thesis. The first is military: he does not take sufficient account of the effect that new sorts of weapons can have on states' geopolitical calculations. One major recent arrival on the military scene—precision-aimed non-nuclear bombs and missiles—may be considerably changing things, not least “the stopping power of water”.

It is probably true that most wars will still be decided by soldiers fighting on the ground. But the task of these soldiers is to kill the other side's men, by the sword, the arrow, the machinegun or whatever new instrument the weapon makers can devise. The more precisely this new instrument can be aimed, and the farther away its aimer is from his enemy when he pulls the trigger, the bigger the advantage of the side that possesses the new weapon—and the fewer soldiers on the ground it will need. Precision-aimed missiles fired from miles away diminish “the stopping power of water” by cutting the size of the army that needs to cross the sea.

The other qualm goes even deeper. In his determination to be icily clinical, Mr Mearsheimer comes close to saying that all states are alike in their will “to think and act offensively and to seek hegemony”; he declines “to classify states as more or less aggressive on the basis of their economic or political systems”. This is the old cold-monster theory; and it is wrong.

States are not indistinguishable entities driven solely by self-interest, powerful though self-interest undoubtedly is. Their policies are also shaped by what their people feel about other peoples, and these feelings are in turn shaped by such things as a common ancestry, a similar culture, a shared body of political ideas. It was not out of self-interest alone that America came to Europe's help against Hitler and Stalin. It is no accident that Europeans—well, most of them—have now been the first to offer America their support against terrorism. If it is wrong to say that democracies never fight each other, it is equally wrong to fall into the opposite error: to deny that, other things being equal, they are more often allies than enemies.

Maybe those adjectives and nouns got mixed up. Perhaps, after all, we can now hope for a spell of realist optimism.

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About sponsorship

Jack Welch

The GE jock

Oct 4th 2001
From The Economist print edition

A remarkably candid autobiography by a great business mogul

Jack.
By Jack Welch and John A. Byrne.
Warner Books; 496 pages; $29.95. Headline; 496 pages; £20

IT IS difficult to read far into this book without wondering, “Why was it written?” Why did Jack Welch, American icon, choose to undermine the myth? “Salem was a scrappy and competitive place,” we read early on about the Massachusetts town where he grew up. “I was competitive, and my friends were, too. All of us were jocks, living to play one sport or another.” Once a jock, always a jock. The man who captained General Electric at a time when it won a much-coveted prize for gathering the most shareholder value in a five-year period, turns out to have been an unblinkingly confident terrier who led all his teams thereafter with the same gutsy instinct he displayed on the sports grounds of Salem. (The American sub-title, “Straight from the Gut”, has been softened for the British market to “What I've Learned Leading a Great Company and Great People”.)

Reuters

Head coach

His years at General Electric were spent in a whirl of meetings with Joes, Jims and Bobs, in towns like Cincinnati, Milwaukee and Boca Raton. He liked nothing more than to “wallow” in things with the lads, preferably down in “the Pit” at Crotonville, the company's management-training centre in New York state. General Electric's share price outperformed most other companies' for much of the 1980s and 1990s, the time when Mr Welch was at the helm.

His success in the 1980s was heavily based on cost-cutting, mostly by shedding staff, which earned him the nickname “Neutron Jack”. He kept winning in the 1990s by switching GE from manufacture to services, by going global and by embracing (belatedly but wholeheartedly) the Internet. He rarely hit a bad ball.

But jocks are first and foremost guys—guys who play sports. This is not a world for women. The self-congratulatory sessions that Jack and his mates held after they made a big sale and “blew the roof off” tended to be all-male affairs. Few women volunteered for this literally puke-inducing initiation—and it is probably not unconnected that few reached the company heights. In Mr Welch's world, women are primarily wives and mothers. A group of executive wives he praises as “great sports”. Of Lord Weinstock, a former British chairman of GEC, with whom Mr Welch once dealt, he writes: “He had racehorses stabled with the Queen's thoroughbreds, had elegant homes filled with great art, and had a spectacular wife.”

Jocks also are small-town folk. On a clear day their horizons stretch about as far as New York. Their international perspective is at best blurred. Mr Welch took to India, where he was treated a bit like the viceroy at the Delhi Durbar of 1877. (He liked it, too.) Europeans, however, were a different matter. The most disobliging stories in the book are about Mr Welch's dealings with Europeans: the first with a chief executive of Philips who stands accused of playing the shareholder-value game with rules not recognised by Mr Welch and his team; the second with Mario Monti, the European commissioner who told Mr Welch that his bid for Honeywell was unacceptable. The book records that the director-general of competition at the EU, Alexander Schaub, described as a “heavyset, round-faced German”, suggested that “Go home, Mr Welch” would be a perfect title for the last chapter of this jointly written memoir.

When jocks are too old to run the field and strip off in front of their fellow jocks they turn to golf. Mr Welch scored here too. “I've met some of the world's greatest human beings playing golf,” he states. Human beings, it turns out, like Bill Gates, Warren Buffett and Greg Norman. When it was being decided who should succeed Mr Welch, the candidates were asked to play golf with the board members in order to help them come to a decision. Suitable candidates, almost by definition, play a decent game.

As a self-portrait of one of America's most successful modern business leaders, “Jack” is remarkable for its candour. In an age of frankness and transparency, it shows us how powerfully jock culture persists beyond the college campus. The battle of Waterloo, said the Duke of Wellington, was won on the playing fields of Eton. In Mr Welch's book, the battle for shareholder value was won, it seems, in the locker rooms of Massachusetts.

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German fiction

Forced normality

Oct 4th 2001
From The Economist print edition

Der Lebenslauf der Liebe.
By Martin Walser.
Suhrkamp (July 2001); 520 pages; DM49.80

MARTIN WALSER is one of Germany's most prolific and venerable writers. Yet his reputation rests more on ambitious failures than on a single undisputed masterpiece. A few critics found that he had finally delivered with “Ein springender Brunnen” (A bubbling spring), a semi-autobiographical novel published in 1998. Like Mr Walser, the story's hero, Johann, is born in 1927. His inept father is a communist, his beloved mother a member of the Nazi party. As the world around him unravels, Johann retreats into poetry. The novel won Germany's top prize for new fiction, but was criticised for its silence on the Holocaust. In his controversial acceptance speech, Mr Walser declared that Auschwitz is too often used as a “tool of intimidation, a moral cudgel, a compulsory exercise”. Germans, he insisted, had moved on.

His latest novel, “Der Lebenslauf der Liebe” (Love's course), can be understood as another attempt to show the extent to which things are back to normal in Germany. The setting is Dusseldorf, but could be any city in Europe or America. Susi Gern is the long-suffering wife of Edmund, a rich lawyer and philanderer. Susi seeks comfort with unsuitable lovers. Somehow the marriage survives, ending only with Edmund's death, after his fortune has vanished on the stockmarket. Susi is left with a disabled daughter and big debts. Eventually she falls in love with a Moroccan half her age and marries again.

The book has fine passages—Susi's brushes with officialdom, for example. But these are rare. Mr Walser cannot leave anything untold. His empathy for Susi, though admirable, taxes patience. She herself has never finished a novel and would soon tire of this one.

“Ein springender Brunnen” ended in 1945, leaving readers to wonder how Johann would deal with the full revelation of his country's horrors. Mr Walser is right that today's Germans, particularly younger Germans, have in many ways put Nazism and the war behind them. But after the forced normality of his recent novels, you long to know what this serious and hugely talented writer really makes of the historical experience of his own generation.

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About sponsorship

Richard Leacock

The man with the mini-camera

Oct 4th 2001 | SARTILLY, NORMANDY
From The Economist print edition

A weekend talk with a pioneering documentary maker who changed how cameras film the real world

Film maker with sketching tool

THE first thing you are likely to notice when talking with Richard Leacock is that his eyes are never still. They dart from side to side with mesmerising rapidity, as if on alert for more of those miraculous revelations and coincidences that he has been recording, with ever smaller cameras, for over half a century.

To fellow film makers, Mr Leacock is renowned as a liberator and iconoclast, a restless (and sometimes difficult) force for innovation. Those outside the profession who may never have heard his name will see the influence of his camerawork whenever they turn on the news.

In the first week of September, Mr Leacock was back from 80th-birthday celebrations to mark his professional achievements, both in New York and at the Massachusetts Institute of Technology, where he taught from 1969 to 1988. On a weekend stay at a tall stone farmhouse in Normandy across the bay from Mont St Michel where he now lives and works, he talked about his life and films. The conversation was punctuated with dashes to the editing room to find samples of tape, with carefully chosen meals (he is an excellent cook) and with references to the autobiographical memoir he is writing and hoping to publish with—or on—a digital video disc sampling his many dozen films.

In the 1950s, when Mr Leacock began to make his own documentaries, a sage New York TV news producer likened filming actual events to “writing with a one-ton pencil”. Mr Leacock, who had perfected his craft in wartime Burma with a hand-held Eymo camera, changed all that. Without sacrificing its visual or expressive power, he made the film camera as light and unobtrusive as a reporter's notebook.

Ever quick to exploit new technical developments, Mr Leacock had by the early 1960s abandoned the impediments that made filming documentaries more arduous than staging opera: standing lights, sound cables, microphone booms and camera tripods. In search of what he calls “the feeling of being there”, he dispensed with scripts, voice-over commentary and dubbed background music.

The results were documentaries of astonishing up-closeness and immediacy, many of them made or shot with his long-time collaborator and fellow path-breaker, D.A. Pennebaker. Their most famous film is probably “Primary” (1960), which followed Hubert Humphrey and John Kennedy as they campaigned in Wisconsin. Soon came synchronised sound, and Mr Leacock's liberation was complete. The “fly-on-the-wall” documentary—his coinage—had been born.

In “Crisis” (1963), which recounts the first black enrolments at the segregated University of Alabama, we overhear both ends of the tense calls between Bobby Kennedy, the attorney-general in Washington, and Nicholas Katzenbach, his man dispatched to confront George Wallace in Tuscaloosa. Cameras had never got so close to decision-making in real time. Not till afterwards did Messrs Leacock and Pennebaker learn, to their joy, that they had got both ends of the story.

An early start

For lunch, Mr Leacock serves Canary Island soup—a rich brew of pumpkin, peppers and sweetcorn—and

talks about his life. Born in 1921, he grew up in the Canaries, where his father, a socialist, owned a banana plantation. As a precocious 14-year-old on holiday from school in England, young Leacock filmed the life story of a banana, all the way from dry soil to boxed crate, edited the results Russian-style with astonishing brio and sent them to Robert Flaherty, the leading American documentary maker of the day. “Someday,” the great man responded, “we will work together.” This was no gentlemanly flourish, and though war intervened, the offer held. Mr Leacock served in an American unit filming behind Japanese lines with Kachin marauders (he was decorated for bravery). On return, he filmed for Flaherty on “Louisiana Story”, about oil and alligators in the deep South.

His breakthrough came with Drew Associates, making documentaries for the small screen. But Mr Leacock bridled under television's constraints. He soon tired, he says, of the suspense-driven story lines TV demanded: will the condemned man be reprieved? Will the racer win the championship? He relates how in 1967 he and Mr Pennebaker showed a TV mogul “Monterey Pop”, the film record of a music festival that grandfathered the rock video. “This doesn't meet industry standards,” grumbled the mogul. “Does it have any?” asked Mr Leacock.

Politically, the tone of his work at the time was liberal, in the American sense. But it seldom had a simple or obvious message. It amuses him that many viewers thought that “Primary” favoured Kennedy, whereas he himself was then a Humphrey Democrat. A restless man, he had earlier tired of communism, just as later he abandoned a long engagement with alcohol.

Though Mr Leacock loves an argument, he is impatient with theory and speaks dismissively of “doctrinal bullshit”. The so-called direct cinema he and Mr Pennebaker started is often contrasted with the French *cinéma vérité* movement of the early 1960s, to which his close friend, Jean Rouch, belonged. Mr Rouch, for example, approves, and Mr Leacock disapproves, of staging events for a documentary. But theoretical disputation has if anything strengthened the bond. In the Leacock photo album, the two friends can be seen on their travels, proudly sitting side by side on a moon-shaped sofa in Mao Zedong's summer palace.

Not that Mr Leacock is without firm ideas on his craft. Cameras, he thinks, should be small and unobtrusive, though never hidden. You should shoot in sequence if you can, and without interfering or asking for actions to be repeated. As to editing, which video makes almost costless, he recommends this simple but effective discipline: each evening, watch everything you have shot that day, without using the fast-forward button.

Over breakfast, Mr Leacock serves everyone, with ceremony, a boiled egg. The French word for this everyday delicacy is played on in the title of one of his most delightful films, “Les Oeufs à la Coque de Ricky Leacock”. It was made in 1990 soon after he moved to France, where he met and fell in love with Valérie Lalonde. They have lived and worked together since, jointly signing their films, now made on digital video. Mr Leacock likens them to sketching, and indeed the best have a captivating freedom and lightness.

“Les Oeufs à la Coque” was filmed in Paris and the French countryside. It is a cross between a love poem to Ms Lalonde and a city-symphony documentary, stitched in with a light-hearted parody of the social-enquiry film (subjects are shown eating their breakfast egg in all manner of ways).

Sight-impaired critics have dismissed such work with all manner of rude words—trivial, domestic, reactionary, irrelevant and shapeless, to name a few. The complaints miss the point. As a cameraman, Mr Leacock is incapable of making a dull shot; and as a film maker, he has the remarkably pure cinematic gift of pricking—and keeping—our visual curiosity. Follow his camera where it leads, and you will seldom be bored. Fluid as they are, his best films have moments that shape the whole. He catches a great range of life, grand and humble, serious and everyday. Into his films, as familiar as friends, walk famous names: Leonard Bernstein, Norman Mailer, Andrei Sakharov, Igor Stravinsky. He is particularly good with people at work, be it a banana packer, a tent-rigger or a conductor directing strings. What Mr Leacock cannot do is preach.

Regrettably, TV airings of his work have dried up, even on art channels, and he has not used a camera in a year. It is lamentable that much of his work is hard to get to see, and anyone who values the documentary tradition will hope that his proposed DVD-memoir succeeds.

In the editing room, Mr Leacock at last unearths a tape of his war footage. Some of it is workaday, some grisly, some electrifying. Was anything in his career as exciting as those days? He has to think. He turns away to find more tape, and then replies with a grin, “Yes, there was: when I realised Pennebaker and

I'd filmed both ends of that conversation in ‘Crisis'.”

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History of children

Little spirits

Oct 4th 2001
From The Economist print edition

Medieval Children.
By Nicholas Orme.
Yale University Press; 400 pages; $39.95 and £25

MEDIEVAL childhood has had a bad press. For years, historians presented it as a lost age in which children—if they lived—were dressed as adults, put to work pitifully young, and beaten if they showed the weakness of their years. Nicholas Orme, a professor of history at Exeter University, has spent decades in the company of these little spirits. The picture he presents is a different and delightful one. His book is a treasure-house of everything to do with medieval children: their clothes, books, toys, games, the shape of their days, even their dreams. They dreamed a good deal about saints, as might be expected.

Childhood, he insists, was seen as a distinct phase of life, and children were respected as individuals. Once born, into rooms darkened so that they would not squint, these children were usually loved and spoiled as much as the modern kind. They were fed pap, shod in soft slippers, given badges to chew and wooden frames to learn to walk. As now, the total costs of the enterprise were sometimes added up and found to be daunting: not only bibs, swaddlebands, petticoats and tail-clouts (nappies) but, before long, schoolbooks, boots and replacement of church windows broken by tennis balls.

For all these similarities, however, there were stark differences. Perhaps half of all children did not reach the age of ten. To spare them the limb of hell reserved for the unchristened, they were baptised at birth. As they grew, they were protected against death and devils by pieces of holy bread put under their pillows. (In one extraordinary image, a father has a vision of his unbaptised dead child, buried in a shoe, bumping and tumbling in the shoe along a road at night.) Children were prone to play in hearths, crawl under log-piles, get crushed by carts. They were set to work early, hence many of the accidents. Their ideas of fun could be sickening: stoning horses or shooting arrows at a live hen buried up to the neck. They also played at being jousters and priests.

Most strikingly, girls were virtually ignored. Mr Orme includes them wherever he can. But their child-lives, like their adult lives, paled beside those of boys. The rowdy schoolboys and apprentices take centre stage; behind them, stitching in a corner or singing to a doll, the girls remain as ghosts.

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About sponsorship

Nguyen Van Thieu

Oct 4th 2001
From The Economist print edition

Nguyen Van Thieu, South Vietnam's war leader, died on September 22nd, aged 76

AP

IN APRIL 1975 Vietnam's war was swiftly coming to an end. The communists were poised to enter Saigon, the South Vietnamese capital. Nguyen Van Thieu, who had led the South for a decade, said, “We will fight to the last bullet, the last grain of rice.” But the southerners were not in a Churchillian mood. Defeat was inevitable. On April 25th Mr Thieu was flown out in an American aircraft. His departure is described in “Without Honor: Defeat in Vietnam and Cambodia”, by Arnold Isaacs.

> After dark, a small convoy of cars with diplomatic licences drove past the military police checkpoint on to Tansonnhut air base. At the wheel of one of the cars, a large Chevrolet, was the CIA's Frank Snepp. In the back seat, awkwardly chatting about events and encounters far in the past, were the CIA's station military expert Charles Timmes and Nguyen Van Thieu. As they passed the checkpoint, Thieu ducked his head...Next to a C-118 transport Ambassador Martin waited to make his farewells. The South Vietnamese leader, sleekly dressed as usual but speaking hoarsely and with tears glistening on his face, thanked Snepp briefly, then trotted up the steps into the aircraft. Martin's last talk with Thieu had been nothing historic, he told Snepp later, “just goodbye”.

Mr Thieu never returned to Vietnam. He lived for several years in Wimbledon, a suburb of London, and later moved to the United States to a house near Boston. He gave few interviews to journalists. He seemed reluctant to dwell on the humiliations of the past. In one of his last speeches to South Vietnam's parliament he had bitterly accused the Americans of “running away”, a cruel comment on a country that had lost nearly 60,000 of its people in the war. But now that Mr Thieu was a guest of the West, Confucian politeness prevailed. History is the loser for Mr Thieu's reticence. Among the vast and extraordinary cast of actors who made their entrances and exits in Vietnam during its 30 years of war he was remarkable in being on stage in some role throughout.

Enter the French

At the end of the second world war in 1945 Ho Chi Minh, a Vietnamese guerrilla leader who had fought the Japanese, believed that Vietnam would be recognised as an independent country, especially by the United States, which had supplied the guerrillas with arms and money. He wrote to President Truman on eight occasions, praising American anti-colonialism and looking forward to happy relations between Vietnam and the United States. There seems to be no record of an American reply, and the matter became irrelevant when a general from France, the former colonial power, arrived in Saigon announcing, “We have come to reclaim our inheritance.”

Mr Thieu, aged 22, a fisherman's son, joined Ho's forces in fighting the French. But he discovered, perhaps naively, that Ho's forces were communist as much as nationalist. “They shot people,” he said, “they seized land.” Mr Thieu joined the French who were promising to make Vietnam a “free state” within the French Union. They made him an officer in their Vietnamese forces, and sent him to France to polish his skills.

When Vietnam was divided after the French defeat at Dien Bien Phu in 1954, Mr Thieu rose swiftly in the South's army, showing talent as a strategist in battles with northern forces, which from 1959 sought to “liberate” the South. By 1963 he was a general and he joined a plot that resulted in the death of the president, Ngo Dinh Diem, who was suspected of helping himself to some of the $1.4 billion a year that

the United States was giving South Vietnam. In 1965, when the first American troops went into action in support of the South, Mr Thieu was the head of the military government. Two years later he became president in a fixed election.

Mr Thieu trusted few people, a wise policy: it turned out that even his intelligence agency was run by communists. He said he had had some luck, which he attributed to taking an astrologer's advice by changing his birthday from a date in November to one in April. He became a Roman Catholic, perhaps to please his wife, who came from a rich Catholic family, but like many Vietnamese he managed to divide his spiritual loyalties, occasionally worshipping at Buddhist shrines.

The Americans had a high regard for Mr Thieu as a soldier, and averted their eyes from his dictatorial ways. As the French had done, they had put him through their own training courses and he had done well. Mr Thieu's view of American competence was less complimentary. Over the years he watched with a mixture of anxiety and scepticism as a succession of presidents sought to help South Vietnam: Kennedy (who had provided “advisers”), Johnson (who sent in 550,000 troops, and is with Mr Thieu in our picture), Nixon (who started the withdrawal) and Ford (who wrote off the war).

According to Mr Thieu, the numerous American commanders and other officials sent to Vietnam cared nothing for its culture, did not feel a need to learn the language, foolishly trusted the North to honour agreements and were themselves victims of changeable policies by their masters at home. But set against all this was Mr Thieu's disadvantage as an ally. He never thought it necessary to understand the ways of a democracy.

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Overview

Oct 4th 2001
From The Economist print edition

America's Federal Reserve cut interest rates for the ninth time this year, lowering its federal-funds rate from 3.0% to 2.5%. Rates are now at their lowest since 1962. The University of Michigan's survey of consumer confidence fell to its lowest reading in eight years, from 91.5 to 81.8. And the National Association of Purchasing Management manufacturing index fell to 47.0 in September, from 47.9 in August. The NAPM services index was brighter, rising from 45.5 to 50.2. A number below 50 suggests that activity is contracting; a number above indicates expansion.

The outlook for the **euro area** darkened as the Reuters-NTC purchasing managers' index (PMI) registered its lowest level since the survey was created in 1998. The PMI fell from 50.4 in August to 48.1 in September, the first time it has fallen below 50. Unemployment in the euro area was unchanged at 8.3% in August, but French unemployment inched up to 9.0%, from 8.9% in July.

Japan's business confidence fell sharply below previous expectations, according to the Tankan survey of business conditions. The balance of firms reporting favourable conditions minus those reporting unfavourable conditions plunged to –33 in September, down from –16 in June, the index's third quarterly decline in a row.

Most **stockmarkets** recovered from their lows. On October 3rd, the Dow Jones Industrial Average rose to its highest level since September 11th.

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Output, demand and jobs

Oct 4th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.3	+ 3.5	– 1.4 Q1	+ 0.7 Q2	6.8 Aug	6.1
Austria	+ 1.6	+ 2.2 Q1	+ 1.6	+ 1.6	+ 8.0 Jun	– 3.3 May	3.9 Aug	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.6	+ 1.6	+ 5.2 Jul*	+ 5.3 Jun	11.6 Aug*	11.9
Britain	+ 1.7	+ 2.3 Q2	+ 2.0	+ 1.9	– 3.2 Jul	+ 6.3 Aug	5.0 Jul†	5.3
Canada	+ 0.4	+ 2.1 Q2	+ 1.6	+ 1.8	– 3.6 Jul**	+ 3.5 Jun	7.2 Aug	7.1
Denmark	+ 2.4	+ 1.3 Q2	+ 1.2	+ 1.8	+ 4.4 Jun	+ 3.0 Jun	5.1 Aug	5.4
France	+ 1.0	+ 2.3 Q2	+ 1.9	+ 1.6	+ 2.3 Jun	– 1.2 Jul	9.0 Aug	9.5
Germany	nil	+ 0.6 Q2	+ 0.8	+ 1.2	– 1.5 Jul	+ 0.9 Jul	9.3 Aug	9.4
Italy	– 0.5	+ 2.0 Q2	+ 1.8	+ 1.5	+ 1.7 Jul	– 1.5 Jul	9.4 Jul	10.5
Japan	– 3.2	– 0.7 Q2	– 0.5	– 0.4	–11.7 Aug	– 2.1 Jun	5.0 Aug	4.6
Netherlands	+ 1.6	+ 1.5 Q2	+ 1.4	+ 1.8	+ 0.7 Jun	+ 1.8 May	2.0 Aug§	2.5
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.2	– 1.6 Jul	na	13.0 Aug	13.9
Sweden	+ 1.3	+ 1.4 Q2	+ 1.8	+ 2.0	– 2.6 Jun	+ 2.6 Jul	4.3 Aug*	5.1
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.6	+ 1.6	+ 4.2 Q2*	+ 3.3 Jul	1.7 Aug*	1.8
United States	+ 0.3	+ 1.2 Q2	+ 1.0	+ 1.0	– 4.8 Aug	+ 4.3 Aug	4.9 Aug	4.1
Euro area	+ 0.2	+ 1.7 Q2	+ 1.6	+ 1.5	– 1.1 Jul	+ 1.3 Jul	8.3 Aug	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 5.4 Jul	+ 6.8 Jun	7.8 Aug*	8.3
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 0.3 May*	+ 8.1 May	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Jul	1.3
Ireland	na	+13.2 Q1	na	na	– 2.3 Jul*	+ 6.2 Jul	3.7 Aug	3.9
Luxembourg	na	+ 8.52000	na	na	+ 4.3 Jun*	+ 8.2 Jun	2.4 Jul	2.6
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 0.9 Q1*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	– 8.0 Jul*	+ 0.4 Jul	3.6 Q2	3.3
Portugal	– 0.3	+ 2.2 Q1	na	na	+ 0.6 Jul*	+ 5.5 Jun	3.9 Q2	3.8

*Not seasonally adjusted. † May-Jul; claimant count rate 3.1% in Aug. §Jun-Aug.**New series.

Text refers only to the first 16 countries listed

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Prices and wages

Oct 4th 2001
From The Economist print edition

	Consumer prices* 1 year		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	2002	Producer prices* 1 year		Producer prices* year ago	Wages/earnings 1 year		Wages/earnings year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.5	+ 5.6	Q2	+ 7.4	+ 3.7	Q2	+ 3.9
Austria	+ 2.5	Aug	+ 2.7	+ 2.5	+ 1.6	+ 1.7	Aug	+ 4.3	+ 2.8	Aug	+ 1.9
Belgium	+ 2.3	Sep	+ 3.4	+ 2.6	+ 1.7	+ 4.0	Jul	+ 8.9	+ 2.6	Q2	+ 2.2
Britain	+ 2.1	Aug	+ 3.0	+ 2.0	+ 2.1	+ 0.3	Aug	+ 2.3	+ 4.6	Jul	+ 3.9
Canada	+ 2.8	Aug	+ 2.5	+ 2.8	+ 2.0	+ 0.9	Aug	+ 3.9	+ 1.7	Jul	+ 1.1
Denmark	+ 2.5	Aug	+ 2.4	+ 2.4	+ 2.0	+ 1.5	Aug	+ 6.4	+ 4.7	Q2	+ 3.3
France	+ 1.9	Aug	+ 1.8	+ 1.9	+ 1.5	+ 0.7	Aug	+ 5.8	+ 4.3	Q1	+ 5.2
Germany	+ 2.1	Sep	+ 2.5	+ 2.4	+ 1.4	+ 1.5	Aug	+ 5.6	+ 1.4	Jul*	+ 2.0
Italy	+ 2.6	Sep	+ 2.6	+ 2.7	+ 1.8	+ 1.2	Aug	+ 6.5	+ 2.5	Aug*	+ 1.8
Japan	– 0.7	Aug	– 0.5	– 0.6	– 0.6	+ 0.1	Aug	+ 0.2	– 4.1	Aug*	+ 2.0
Netherlands	+ 4.7	Aug	+ 2.5	+ 4.7	+ 2.2	+ 2.4	Jul	+ 8.0	+ 4.3	Aug	+ 3.3
Spain	+ 3.7	Aug	+ 3.6	+ 3.7	+ 2.4	+ 1.6	Aug	+ 5.1	+ 2.9	Q2†	na
Sweden	+ 3.1	Aug	+ 1.3	+ 2.3	+ 1.8	+ 1.5	Aug	+ 3.7	+ 1.9	Jul*	+ 4.0
Switzerland	+ 0.7	Sep	+ 1.4	+ 1.3	+ 1.1	– 0.2	Aug	+ 2.4	+ 1.3	2000	+ 0.3
United States	+ 2.7	Aug	+ 3.4	+ 3.1	+ 2.1	+ 2.1	Aug	+ 3.4	+ 4.2	Aug	+ 3.8
Euro area	+ 2.7	Aug	+ 2.3	+ 2.6	+ 1.7	+ 1.7	Aug	+ 5.6	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.4	Aug	+ 3.8	na	na	– 0.1	Aug	+ 7.6	+ 4.8	Q2*	+ 4.6
Greece	+ 3.8	Aug	+ 3.0	na	na	+ 4.5	Jul	+ 7.7	na		na
Iceland	+ 8.4	Sep	+ 4.0	na	na	+ 6.8	Sep	+ 3.4	+ 8.8	Aug	+ 7.9
Ireland	+ 4.6	Aug	+ 6.2	na	na	+ 2.6	Aug	+ 6.5	+ 8.1	Q1*	+ 6.1
Luxembourg	+ 2.8	Aug	+ 3.1	na	na	+ 0.4	Jul	+ 6.7	+ 7.8	Jun*	+ 5.3
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.7	Aug	+ 3.5	na	na	– 4.3	Aug	+ 6.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.0	Aug	+ 3.5	na	na	– 0.2	Aug	+14.2	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

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Economic forecasts

Oct 4th 2001
From The Economist print edition

The Economist poll of forecasters, October averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2001	2002	2001	2002	2001	2002	2001	2002
Australia	1.8/3.0	2.9/4.5	2.3 (2.5)	3.5 (4.0)	4.0	2.5 (2.4)	-2.9(-2.8)	-3.2 (-3.1)
Austria	1.1/2.3	0.7/2.6	1.6 (1.7)	1.6 (2.1)	2.5	1.6 (1.8)	-2.6(-2.4)	-2.5 (-2.3)
Belgium	1.3/2.0	0.7/2.6	1.6 (1.9)	1.6 (2.4)	2.6 (2.5)	1.7 (1.9)	4.1 (4.2)	4.3 (4.5)
Britain	1.8/2.2	0.5/2.4	2.0 (2.1)	1.9 (2.6)	2.0 (2.1)	2.1 (2.3)	-1.9(-1.7)	-2.4 (-2.1)
Canada	1.2/2.3	0.6/2.9	1.6 (2.1)	1.8 (2.8)	2.8	2.0 (2.1)	2.6 (3.1)	1.9 (2.3)
Denmark	0.5/1.7	0.7/2.4	1.2 (1.3)	1.8 (2.1)	2.4	2.0	1.8 (1.4)	1.7 (1.4)
France	1.5/2.1	1.1/2.4	1.9 (2.2)	1.6 (2.3)	1.9 (1.8)	1.5	1.5	1.5 (1.6)
Germany	0.5/1.1	0.7/2.0	0.8 (1.1)	1.2 (1.9)	2.4 (2.6)	1.4 (1.5)	-1.0	-0.9
Italy	1.5/2.1	0.7/2.5	1.8 (1.9)	1.5 (2.2)	2.7	1.8 (2.0)	-0.3	-0.2
Japan	-0.9/1.5	-1.4/1.2	-0.5 (-0.4)	-0.4 (0.5)	-0.6 (-0.5)	-0.6 (-0.4)	2.0 (2.1)	1.9 (2.0)
Netherlands	1.0/2.0	0.9/2.9	1.4 (1.7)	1.8 (2.5)	4.7 4.6	2.2 (2.5)	4.0 (3.9)	4.1 (3.9)
Spain	2.5/2.9	1.7/2.7	2.7	2.2 (2.8)	3.7	2.4 (2.8)	-2.7(-2.8)	-2.7 (-2.3)
Sweden	1.2/2.1	1.2/3.1	1.8 (2.0)	2.0 (2.6)	2.3	1.8	1.9 (2.1)	2.1 (2.3)
Switzerland	1.2/1.9	0.9/2.3	1.6	1.6 (1.9)	1.3	1.1 (1.2)	10.6(10.9)	10.5 (10.7)
United States	0.8/1.3	-0.2/2.3	1.0 (1.6)	1.0 (2.6)	3.1 3.2	2.1 (2.2)	-4.2(-4.1)	-4.0
Euro area	1.3/1.8	0.9/2.4	1.6 (1.8)	1.5 (2.2)	2.6 (2.7)	1.7 (1.8)	-0.3(-0.2)	-0.2 (-0.1)

Sources: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan, Morgan Stanley Dean Witter, Nordbanken, Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Scotiabank, Shinsei Bank, Warburg Dillon Read.

Every month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and the euro area. The table also shows the highest and lowest projections for economic growth. The previous month's forecasts, where different, are shown in brackets. The panel has become much gloomier about the outlook following the terrorist attacks of September 11th. It has slashed its average forecast for growth everywhere in 2002. The biggest downgrade is for America, with GDP expected to grow by only 1%, rather than the 2.6% forecast in early September. The Japanese economy is expected to shrink in 2002 as well as 2001. Growth in the euro area next year is expected to be 1.5%, a sharp reduction from 2.2% forecast a month ago.

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Money and interest rates

Oct 4th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Oct 3rd 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+14.7	+ 7.7	Aug	4.40	6.47	4.18	5.42	6.18	5.47
Britain	+ 7.3	+ 7.1	Aug	4.44	6.13	4.47	4.76	5.23	6.32
Canada	+ 7.6	+ 3.6	Aug	2.99	5.56	3.49	5.25	5.81	7.20
Denmark	+ 6.7	+ 2.3	Aug	3.90	5.70	3.95	4.84	5.51	6.95
Japan	+ 9.7	+ 3.4	Aug	0.01	0.41	0.06	1.38	1.80	1.45
Sweden	+ 6.6	+ 2.5	Aug	3.65	4.07	3.88	5.10	5.22	5.03
Switzerland	+ 0.1	+ 2.6	Aug	2.22	3.55	3.52	3.15	3.88	4.55
United States	+ 4.0	+10.9	Aug	2.45	6.72	2.76	4.48	5.89	7.12
Euro area†	+ 3.1	+ 6.6	Aug	3.62	5.04	3.33	4.65	5.18	5.54

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.57%, Japan No.234 1.39%. Central bank rates: US fed funds 2.50%, ECB refinancing 3.75%, BOJ overnight call 0.002%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Oct 4th 2001
From The Economist print edition

1995=100

	Sep 25th	Oct 2nd*	% change on one month	% change on one year
Dollar index				
All items	65.0	63.7	– 5.9	–11.8
Food	67.1	65.6	– 4.3	– 6.4
Industrials				
All	62.1	61.2	– 8.1	–18.6
Nfa†	60.3	58.7	–12.5	–13.9
Metals	63.6	63.3	– 4.3	–22.0
Sterling index				
All items	69.7	68.5	– 7.2	–12.3
Euro index				
All items	92.6	91.5	– 8.5	–15.6
Yen index				
All items	81.2	81.9	– 4.3	– 2.0
Gold				
$ per oz	289.45	290.50	+ 6.7	+ 6.8
West Texas Intermediate				
$ per barrel	21.82	22.30	–17.3	–30.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Oct 4th 2001
From The Economist print edition

Market indices

	Oct 3rd	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,061.5	3,425.2	2,867.4	+ 4.4	-10.6	- 3.0	-13.2
Austria (ATX)	1,094.5	1,245.8	1,052.2	+ 1.8	-37.0	+ 2.0	- 0.0
Belgium (Bel 20)	2,639.9	3,030.4	2,322.6	+ 5.9	-28.3	-12.7	-14.4
Britain (FTSE 100)	4,881.8	6,334.5	4,433.7	+ 4.0	-29.6	-21.5	-22.4
Canada (Toronto Composite)	6,903.8	9,348.4	6,513.1	+ 3.7	-39.4	-22.7	-26.0
Denmark (KBX)	211.1	294.3	197.8	+ 2.7	-30.0	-20.2	-21.5
France (SBF 250)	2,557.4	3,820.2	2,335.3	+ 0.5	-41.8	-32.2	-33.5
(CAC 40)	4,024.3	5,998.5	3,652.9	+ 1.2	-41.9	-32.1	-33.4
Germany (Xetra DAX)	4,436.7	6,795.1	3,787.2	+ 8.3	-45.0	-31.0	-32.4
Italy (BCI)	1,270.1	1,948.4	1,082.9	+ 5.4	-41.8	-33.7	-35.0
Japan (Nikkei 225)	9,924.2	14,529.4	9,504.4	+ 2.9	-74.5	-28.0	-31.9
(Topix)	1,050.4	1,441.0	863.4	+ 5.2	-63.6	-18.2	-22.6
Netherlands (AEX)	438.4	642.3	396.2	+ 0.9	-37.5	-31.2	-32.6
Spain (Madrid SE)	717.2	963.9	648.6	+ 2.7	-37.4	-18.6	-20.2
Sweden (Affarsvarlden Gen)	192.0	293.1	177.5	+ 3.7	-52.0	-30.9	-38.6
Switzerland (Swiss Market)	5,858.9	8,135.4	5,110.2	+ 2.3	-30.4	-28.0	-27.5
United States (DJIA)	9,123.8	11,337.9	8,235.8	+ 6.5	-22.2	-15.4	-15.4
(S&P 500)	1,071.5	1,373.7	965.8	+ 6.5	-29.9	-18.8	-18.8
(Nasdaq Comp)	1,580.8	2,859.2	1,423.2	+ 8.0	-68.7	-36.0	-36.0
Europe (FTSE Eurotop 300)*	1,118.4	1,545.5	998.9	+ 3.7	-34.4	-27.1	-28.5
Euro area (FTSE Ebloc 100)*	955.4	1,404.1	843.6	+ 3.6	-38.4	-31.4	-32.7
World (MSCI)†	942.6	1,249.2	856.6	+ 4.9	-34.9	na	-22.8
World bond market (Salomon)‡	456.8	458.1	420.6	nil	- 0.7	na	+ 2.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Oct 4th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Oct 3rd	Exchange rate trade-weighted† year ago	Currency units per $ Oct 3rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.5	Aug	− 9.9	Q2	− 2.9	− 3.2	68.7	73.0	2.01	1.86	2.97	1.85	1.67	0.1
Austria	− 5.3	Jun	− 4.7	Jul	− 2.6	− 2.5	100.4	99.2	15.0	15.8	22.1	13.8	12.4	-0.6
Belgium	+ 10.6	Jul	+ 8.9	Jun	+ 4.1	+ 4.3	99.4	97.7	43.8	46.2	64.7	40.3	36.3	0.7
Britain	− 45.9	Jul	− 19.2	Q2	− 1.9	− 2.4	106.4	108.0	0.68	0.69	–	0.62	0.56	1.2
Canada	+ 47.4	Jul	+ 25.5	Q2	+ 2.6	+ 1.9	76.4	79.7	1.57	1.50	2.32	1.44	1.30	2.6
Denmark	+ 6.8	Jul	+ 4.6	Jul	+ 1.8	+ 1.7	103.3	99.9	8.08	8.54	11.9	7.44	6.69	2.9
France	+ 0.2	Jul	+ 17.4	Jul	+ 1.5	+ 1.5	102.0	100.2	7.13	7.52	10.5	6.56	5.90	-0.5
Germany	+ 59.2	Jul	− 21.3	Jul	− 1.0	− 0.9	99.1	96.7	2.12	2.24	3.14	1.96	1.76	-1.7
Italy	+ 3.6	Jun	− 3.8	Jun	− 0.3	− 0.2	72.8	71.5	2,103	2,219	3,106	1,936	1,742	-1.3
Japan	+ 84.3	Jul	+ 92.5	Jul	+ 2.0	+ 1.9	138.2	155.0	121	109	178	111	–	-6.3
Netherlands	+ 18.6	Jul	+ 13.7	Q2	+ 4.0	+ 4.1	98.4	96.4	2.39	2.53	3.53	2.20	1.98	1.3
Spain	− 38.3	Jul	− 16.6	Jun	− 2.7	− 2.7	74.5	73.2	181	191	267	166	150	nil
Sweden	+ 12.1	Aug	+ 5.2	Jul	+ 1.9	+ 2.1	71.8	80.4	10.62	9.81	15.7	9.78	8.80	3.6
Switzerland	+ 0.5	Aug	+ 27.0	Q2	+10.6	+10.5	111.9	106.8	1.61	1.74	2.38	1.48	1.33	na
United States	−450.6	Jul	−449.9	Q2	− 4.2	− 4.0	117.3	114.5	–	–	1.48	0.92	0.83	2.1
Euro area	+ 7.1	Jul	− 29.4	Jul	− 0.3	− 0.2	79.8	76.3	1.09	1.15	1.60	–	0.90	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	Jul	+ 9.1	Jul	na	na	79.2	76.1	6.69	6.81	9.88	6.16	5.54	5.3
Greece	− 7.4	Jun	− 7.7	Jan	na	na	57.6	56.9	384	389	566	353	318	nil
Iceland	− 0.3	Aug	− 0.9	Q1	na	na	na	na	100	83.5	147	91.8	82.6	2.4
Ireland	+ 30.3	Jul	− 1.3	Q1	na	na	88.0	85.2	0.89	0.90	1.31	0.82	0.74	4.5
Luxembourg	− 2.9	Jun	+ 1.2	Q1	na	na	99.4	97.7	45.4	46.2	67.0	41.8	37.6	3.6
New Zealand	+ 0.2	Aug	− 1.9	Q2	na	na	77.4	73.8	2.31	2.48	3.41	2.13	1.91	1.0
Norway	+ 27.6	Aug	+ 26.6	Jul	na	na	96.1	92.8	8.94	9.20	13.2	8.23	7.41	15.3
Portugal	− 13.6	Jun	− 9.4	Jul	na	na	89.7	88.2	226	230	333	208	187	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

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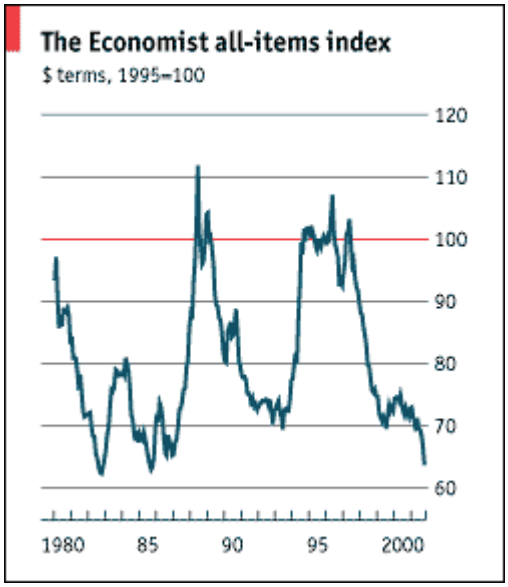
The Economist all-items index

Oct 4th 2001
From The Economist print edition

Fears of a world recession are battering commodity prices. Our all-items index is at its lowest level for 15 years. Base-metal prices have fallen by 23% since the end of January.



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Overview

Oct 4th 2001
From The Economist print edition

India's real GDP rose at an unexpectedly strong rate of 4.4% in the year to the second quarter. But weakness in service industries points to a possible fall-off in India's short-term growth prospects. Indian consumer prices rose by 5.2% in the year to August, up from 4.0% in July.

Inflation is also creeping up in **Indonesia**, where consumer prices rose by 13.0% in the year to September, up from 12.2% in the previous month.

Industrial production in the **Philippines** fell by 2.1% in the year to July. The Manila stockmarket fell to a three-year low.

The **Hong Kong** Monetary Authority cut base interest rates by half a point, matching America's cut. The Hong Kong dollar has been pegged to America's since 1983.

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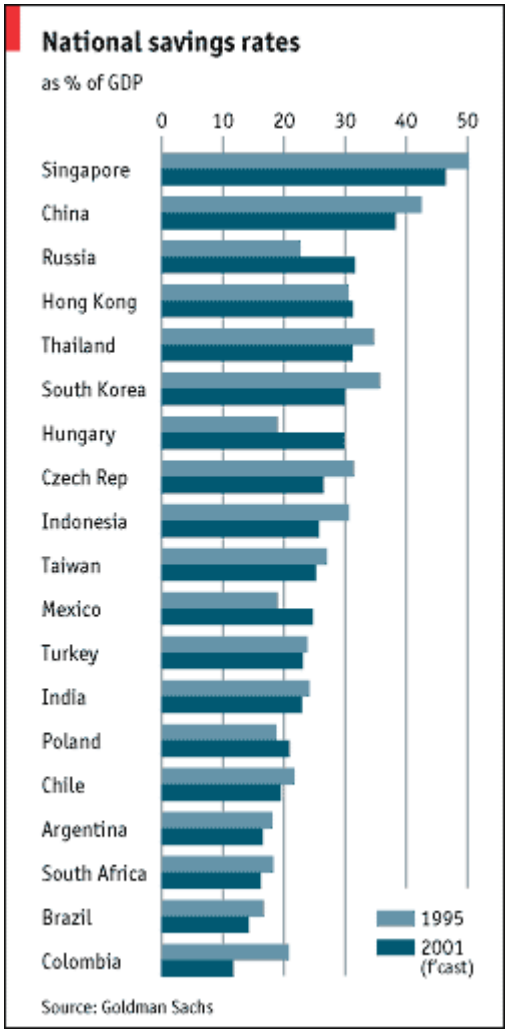
National savings rates

Oct 4th 2001
From The Economist print edition

Although East Asian countries still boast high savings rates, the figures have slipped since the heady mid-1990s. Latin American countries' traditionally lower savings rates have also fallen, with the exception of Mexico. Some countries in our chart, notably those in Central and Eastern Europe, are saving more of their GDP. Russia's savings rate for 2001 is five percentage points above its 1995 level.



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Economy

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	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+ 8.1	Aug	+ 1.0	Aug	+18.8	Aug	+20.5	2000	183.9	Jun
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.1	Aug	–12.0	Aug	+ 8.2	Q2	113.7	Aug
India	+ 4.4	Q2	+ 2.6	Jul	+ 5.2	Aug	– 5.5	Jul	– 2.3	Q1	42.5	Aug
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+13.0	Sep	+24.8	Aug	+ 6.3	Q1	28.2	Jul
Malaysia	+ 0.5	Q2	– 5.9	Jul	+ 1.3	Aug	+15.7	Aug	+ 7.4	Q1	26.9	Jul
Philippines	+ 3.3	Q2	– 2.1	Jul	+ 6.3	Aug	+ 4.5	Jul	+ 7.8	May	12.6	Jun
Singapore	– 0.9	Q2	–21.4	Aug	+ 0.7	Aug	+ 4.2	Aug	+22.6	Q2	74.4	Jun
South Korea	+ 2.7	Q2	– 5.9	Jul	+ 4.7	Aug	+11.5	Sep	+13.3	Jul	97.0	Jul
Taiwan	– 2.4	Q2	– 8.2	Aug	+ 0.4	Aug	+13.8	Aug	+14.1	Q2	110.1	Jul
Thailand	+ 1.9	Q2	+ 2.1	Jul	+ 1.4	Sep	+ 2.9	Aug	+ 6.7	Aug	31.2	Jul
Argentina	– 0.5	Q2	– 5.6	Aug	– 1.2	Aug	+ 2.6	Jul	– 8.4	Q2	16.7	Jul
Brazil	+ 0.8	Q2	+ 0.8	Jul	+ 7.3	Aug	– 1.1	Aug	–27.1	Aug	35.5	Jul
Chile	+ 3.4	Q2	+ 1.7	Aug	+ 3.8	Aug	+ 1.5	Aug	– 1.6	Q2	14.5	Jul
Colombia	+ 1.6	Q2	+ 0.5	Jul	+ 8.0	Aug	+ 0.9	Jul	– 0.7	Q1	9.5	Jul
Mexico	nil	Q2	– 3.3	Jul	+ 5.9	Aug	– 9.5	Aug	–17.5	Q2	40.8	Jul
Peru	– 0.8	Jul	– 3.3	Jul	+ 0.9	Sep	– 0.2	Jul	– 1.4	Q2	8.4	Jun
Venezuela	+ 2.9	Q2	na		+12.9	Aug	+15.6	Q2‡	+11.1	Q2	10.6	Jul
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Jul	– 9.9	Q1	– 0.2	Q1	12.9	May
Israel	+ 1.4	Q2	– 5.8	Jul	+ 1.7	Aug	– 7.3	Aug	– 1.1	Q1	24.2	Aug
South Africa	+ 2.5	Q2	+ 1.0	Jul	+ 4.6	Aug	+ 4.3	Aug	+ 0.4	Q2	6.1	Jul
Turkey	– 9.3	Q2	–11.2	Jul	+61.8	Sep	–19.3	Jul	– 3.1	Jul	17.2	Jul
Czech Republic	+ 3.9	Q2	+ 9.3	Jul	+ 5.5	Aug	– 3.5	Aug	– 2.7	Q2	13.4	Aug
Hungary	+ 4.0	Q2	– 0.8	Jul	+ 8.7	Aug	– 2.3	Aug	– 1.4	Aug	12.0	Aug
Poland	+ 0.9	Q2	+ 0.7	Aug	+ 5.1	Aug	– 9.6	Aug	– 6.2	Aug	27.0	Jul
Russia	+ 5.1	Q2	+ 5.1	Aug	+20.9	Aug	+58.4	Jul	+45.9	Q1	33.7	Aug
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 3.4	Aug	– 1.5	Jul	– 1.1	2001†	1.3	May
Saudi Arabia	+ 4.5	2000§	na		– 0.5	Jun	+50.9	2000	+15.6	2000	17.0	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 3rd		Dec 31st 2000	
	Oct 3rd	year ago	Oct 3rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.2	na	1,844.3	-0.2	-15.9	-15.9
Hong Kong	7.80	7.79	11.5	2.37	9,897.1	+5.6	-34.4	-34.4
India	47.9	46.1	70.7	7.00	2,755.0	+3.3	-30.6	-32.4
Indonesia	9,905	8,815	14,627	17.90	371.5	-7.4	-10.8	-12.8
Malaysia	3.80	3.80	5.61	3.30	616.7	+2.4	-9.3	-9.3
Philippines	51.6	46.5	76.2	12.88	1,089.3	-4.8	-27.1	-29.4
Singapore	1.78	1.75	2.63	1.75	1,335.3	+4.5	-30.7	-32.4
South Korea	1,304	1,120	1,926	4.42	479.7	+1.4	-4.9	-7.8
Taiwan	34.6	31.3	51.0	3.10	3,446.3	-4.9	-27.4	-30.5
Thailand	44.7	42.7	66.0	3.00	276.1	+0.2	+2.6	-0.4
Argentina	1.00	1.00	1.48	11.20	214.6	-12.3	-48.5	-48.6
Brazil	2.73	1.85	4.03	19.10	10,233.3	+2.3	-34.4	-53.1
Chile	698	561	1,031	1.04*	5,014.5	-2.1	+3.0	-15.3
Colombia	2,337	2,198	3,452	11.96	925.1	-0.1	na	na
Mexico	9.52	9.42	14.1	9.10	5,407.5	+1.6	-4.3	-3.4
Peru	3.48	3.50	5.1	5.65	1,197.2	-1.9	-0.9	+0.4
Venezuela	743	691	1,096	18.00	7,026.6	+0.8	+3.4	-2.5
Egypt	4.26	3.69	6.28	8.78	5,494.6	-3.6	-28.3	-34.5
Israel	4.37	4.04	6.45	4.47	355.9	-0.7	-28.0	-33.4
South Africa	9.32	7.24	13.8	8.90	8,239.1	+3.7	-1.0	-19.6
Turkey	1,587,000	669,035	2,343,523	57.00	7,669.9	+2.6	-18.7	-65.7
Czech Republic	36.5	40.9	54.0	5.34	334.7	-0.7	-30.1	-28.0
Hungary	280	302	413	10.90	6,294.1	+3.6	-19.8	-19.1
Poland	4.18	4.54	6.17	14.39	11,564.6	-2.1	-35.2	-35.9
Russia	29.5	27.9	43.6	25.00	174.2	-1.5	+25.2	+21.6
EMF (MSCI)‡	1.00	1.00	1.48	na	247.1	-0.2	na	-26.0
EMBI+§	1.00	1.00	1.48	na	199.4	+0.1	na	-1.2

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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